



# Performance and Accountability Report

Fiscal Year 2009



U.S. Customs and  
Border Protection



# About This Report

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This is the U.S. Customs and Border Protection (CBP) Fiscal Year 2009 Performance and Accountability Report (PAR). The PAR is a comprehensive report that combines CBP's Annual Performance Report with its audited financial statements, assurances on internal control, accountability reporting and agency assessments. CBP's PAR provides financial and performance information that enable Congress and the public to assess the performance of the agency as it relates to the CBP mission.

CBP is America's frontline border agency, we guard the boundaries of freedom and stand between the good citizens of our nation and those who want to do us harm. The CBP PAR discusses the agency's strategic goals and objectives and provides a comparison of agency performance targets to actual performance results. The CBP PAR satisfies the reporting requirements of the Reports Consolidation Act of 2000 (Pub. L. No. 106-531), Government Performance and Results Act (Public Law No. 103-62), Chief Financial Officers Act of 1990 (Public Law No. 101-576), Office of Management and Budget (OMB) Circular No. A-136, Financial Reporting Requirement, dated June 10, 2009, and other financial management statutes and reports.

The CBP PAR provides a summary of the agency's major mission programs, including strategies. Additional information related to the specific programs, initiatives, tools and resources to achieve objectives can be found in the body of the U.S. Department of Homeland Security (DHS) Congressional Budget Justification for the President's budget, which details information by DHS component.

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# Commissioner's Message



I am pleased to present the Fiscal Year 2009 Performance and Accountability Report for U.S. Customs and Border Protection (CBP).

CBP is the Nation's single unified border agency, within the U.S. Department of Homeland Security, that protects our borders from terrorism, human and drug smuggling, illegal migration, and agricultural pests while simultaneously facilitating the flow of legitimate travel and trade. Millions of tons of cargo, as well as more than a million people each day, cross our borders for legitimate purposes. As our mission continues to grow, CBP continues to make progress toward better protecting our country from the threat of global terrorism, while we have continued our efforts to stem illegal immigration, drug trafficking, and alien smuggling. CBP continues to update and adjust

programs to enhance overall efficiency and keep pace with the anticipated growth in the volume of cargo and passengers arriving at our Nation's port of entry.

CBP's accomplishments in Fiscal Year (FY) 2009 have been impressive. Through the implementation of the Western Hemisphere Travel Initiative, we now have a document requirement for individuals crossing our land border ports of entry. In 2009, CBP attained the goals of doubling the size of the Border Patrol workforce, now at a level of 20,100 agents, and have now built 636.5 miles of fence along the Southwest Border. We have improved the amount and the quality of actionable intelligence and information getting to our frontline officers and have made CBP a model agency for emergency preparedness and response. We seized a record amount of drugs at and beyond our borders and expanded Unmanned Aircraft Systems operations to the Northern Border, and effectively used our air assets to address emerging threats, like semi-submersible vessels in the transit zone and ultra lights crossing our Southern Border. We also continued to strengthen our relationships with international partners to enhance and compliment our border security, especially with our neighbors to the north and to the south. We increased our enforcement efforts to combat southbound firearms and currency smuggling. Finally we have made great progress in working to put advanced tools and technologies into the hands of our frontline agents and officers.

CBP has made tremendous progress in our efforts to reduce cost, streamline processes, and increase transparency in order to address the requirements of the American Recovery and Reinvestment Act of 2009. CBP is currently planning to execute major capital improvements at CBP-owned land ports of entry using funds allocated through the American Recovery and Reinvestment Act of 2009. Upon completion, these ports will be equipped with the latest inspection technology and enhanced security features necessary to meet CBP's evolving mission. CBP also continues to enhance its Non-Intrusive Inspection technology to promote the effectiveness of its layered enforcement strategy, while keeping pace with the anticipated growth in the volume of cargo arriving at our Nation's ports of entry. Tactical communications modernization activities have also been initiated to enhance the communication capabilities for CBP agents and officers.

CBP is committed to meeting Secretary Napolitano's challenge to look at every aspect of our work and find creative, feasible ways to reduce costs and increase productivity by implementing Efficiency Review Initiatives through-

# Commissioner's Message

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out the agency. In response, CBP has developed new policies, internal controls, and procedures for performance tracking for the 20 DHS efficiency initiatives.

As a result of the FY 2009 Financial Statement Audit, CBP received an unqualified opinion on its full set of financial statements. This outstanding accomplishment demonstrates CBP's discipline and accountability in the execution of its fiscal responsibilities as a steward of CBP programs, and reflects a fourth year of an unqualified opinion for CBP.

The CBP FY 2009 Performance and Accountability Report (PAR) includes financial and performance information that is reliable, complete, and addresses CBP's compliance with financial management requirements. The PAR also identifies some areas for improvement.

CBP evaluated our management controls and financial management systems in compliance with the Federal Managers' Financial Integrity Act of 1982 and our internal controls over financial reporting as required by the Department of Homeland Security Financial Accountability Act. As a result of this self-assessment, CBP identified three material weaknesses for FY 2009, and two instances of nonconformance, all are carryovers from previous years.

- » Business Continuity
- » Information Security
- » Custodial Revenue and Drawback Controls
- » Financial Systems Security
- » Core Financial Systems

While current CBP financial management systems do not substantially comply with Federal financial management systems requirements and the U.S. Government Standards General Ledger at the transaction level, CBP is modernizing its financial systems. CBP is in its sixth year of using SAP as an integrated solution for its budget, procurement, acquisition, asset management, finance and business reporting processes.

KPMG LLP conducted an independent audit of CBP's FY 2009 Financial Statements. The material weaknesses they reported, which are cited in the Financial Section of this report, support those identified through CBP's self-assertion process, with two exceptions:

- Material weakness on business continuity testing of Chief Financial Officer designated financial systems identified through CBP's FY 2009 internal control evaluation process.
- Material weakness on information security related to US VISIT technology security issues that were identified by the Government Accountability Office in 2007.

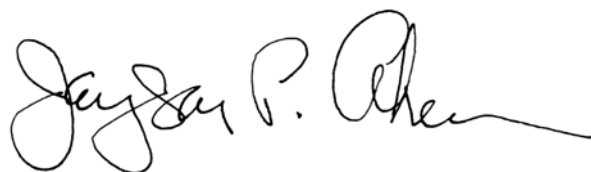


# Commissioner's Message

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CBP will work to improve deficiencies identified in the Performance and Accountability Report and will put in place timetables for corrective action to ensure future compliance. We remain committed each year to share information on our financial and program performance.

I would like to congratulate the entire CBP workforce for all of our achievements over the past year and the job performed every day to protect our Nation. Our success would not have been possible without the tireless efforts and unyielding work ethic of the men and women of CBP.

A handwritten signature in black ink, reading "Jayson P. Ahern". The signature is fluid and cursive, with a long horizontal line extending from the end of the name.

Jayson P. Ahern, Acting Commissioner  
U.S. Customs and Border Protection  
December 9, 2009





# Management's Discussion and Analysis

# Overview of CBP

## Mission

CBP is the frontline border security agency within DHS charged with the priority mission of preventing terrorists and terrorist weapons from entering the United States, while also facilitating the flow of legitimate trade and travel. CBP prevents narcotics, agricultural pests and smuggled goods from entering the country and also identifies and arrests individuals with outstanding criminal warrants. CBP leverages its enforcement and intelligence-gathering capabilities to execute the mission of border and airspace security. More than 58,600 CBP employees manage, control, and protect the Nation's borders at, and between, the official ports of entry. CBP is responsible for protecting more than 5,000 miles of border with Canada, 1,900 miles of border with Mexico, and 95,000 miles of shoreline. CBP's mission is vitally important to the protection of the American people and the national economy.

## Core Values

**Vigilance** is how we ensure the safety of all Americans. We are continuously watchful and alert to deter, detect, and prevent threats to our Nation. We demonstrate courage and valor in the protection of our Nation.

**Service to Country** is embodied in the work we do. We are dedicated to defending and upholding the Constitution and the laws of the United States. The American people have entrusted us to protect the homeland and defend liberty.

**Integrity** is our cornerstone. We are guided by the highest ethical and moral principles. Our actions bring honor to ourselves, our agency, and our country.

## Fiscal Year 2009 Statistical Highlights

- Ports of entry: 327 (includes 15 preclearance stations)
- Border Patrol sectors: 20 (with 139 Border Patrol stations nationwide and 32 permanent checkpoints)
- Air units: 46 (2 Training locations and 3 Radar/Communications locations)
- Marine units: 67 (1 Training Location and 1 Maintenance location)
- Trade entries processed: 24.8 million
- Total revenue collected: \$29 billion (includes custodial and entity revenue)
- Illegal narcotics seized: 2.4 million pounds (represents narcotics held by CBP until disposal or destruction)
- Illegal alien apprehensions between the ports of entry: 556,041
- Inadmissible aliens interdicted at the ports of entry: 224,680

# Overview of CBP

- Pedestrians and passengers processed: 361 million
- Conveyances processed: over 109 million
- Aircraft passengers processed: over 87 million

## Drug Seizure Statistics

Note: The following amounts represent total CBP seizures, including amounts transferred to other government agencies for disposition.

- Number of pounds of cocaine seized: 135,943
- Number of pounds of heroin seized: 2,015
- Number of pounds of marijuana seized: 4,330,475
- Number of pounds of methamphetamine seized: 6,135



*CBP Border Patrol drug seizure.*

## Major Mission Programs and Strategies

As America's frontline border security agency, CBP has established programs and strategies designed to enhance border security and other mission critical functions by operating as a fully integrated information-driven agency. CBP strives to maximize partnerships on the home front and abroad by promoting an effective management infrastructure that fosters the highest standards of integrity. CBP has built a layered strategy using risk-based approaches and performance management techniques that maximize CBP's strengths.

### The American Recovery and Reinvestment Act of 2009

During Fiscal Year 2009, CBP received a supplemental appropriation under the American Recovery and Reinvestment Act of 2009, Public Law 111-5 (ARRA). ARRA made \$680 million available to CBP until the end of Fiscal Year 2010 for infrastructure investment. ARRA allocated \$160 million for the procurement and deployment of non-intrusive inspection (NII) systems and tactical communications equipment and radios; \$100 million for the expedited development and deployment of border security technology on the southwest border; and \$420 million for the planning, management, design, alteration and construction of CBP-owned border land ports of entry (LPOEs).

### Non-Intrusive Inspection

CBP has developed a multilayered screening process to identify, target, and inspect high-risk shipments. An examination of high risk shipments that meet certain identifying criteria includes scanning with large-scale non-intrusive equipment and radiation detection equipment. CBP uses the Automated Targeting System (ATS), a rules-based

# Overview of CBP

computer system to automatically review the electronic bill of lading/manifest data of more than 11 million containers before they arrive at U.S. point of entry (POE), allowing CBP to flag containers that are considered high-risk. NII equipment is then used to scan the contents of those containers identified as high-risk or those randomly selected by CBP officers for further review.

CBP officers use large-scale NII equipment, such as gamma ray and X-ray imaging systems, to scan the contents of entire containers. These units scan the interior of a full-size, 40-foot container, in less than one minute. Some of the currently deployed high-energy X-ray systems can penetrate more than one foot of steel. This equipment is effective at identifying a variety of illegal activity and contraband, including human smuggling, narcotics, weapons, and explosives. Large-scale NII equipment is deployed at nearly all U.S. land border crossings and seaports.

CBP uses radiation portal monitors (RPMs) to scan cargo containers for radioactive material. Using RPMs, cargo is scanned in vehicle-processing lanes at land border ports, as it is off-loaded from ships and aircraft at seaports and select airports, and at express consignment facilities. Officers also use personal radiation detectors (PRDs) and radiation isotope identification devices (RIIDs) to scan for and identify signs of radioactive materials as they perform inspections on smaller vehicles and shipments. Special high-tech tools such as densitometers and fiber-optic scopes allow officers to peer inside suspicious containers. Finally, if necessary, containers are opened and unloaded for a more thorough carton-by-carton inspection.

## Secure Border Initiative and SBInet

CBP's Secure Border Initiative (SBI) is a comprehensive multi-year plan established by the DHS to secure our Nation's borders and reduce illegal immigration. SBI integrates and unifies systems, programs and policies needed to secure the border and enforce customs and immigration laws.

SBI's primary functions focus on developing, deploying and integrating both technology solutions and tactical infrastructure to assist frontline CBP personnel and their border security operations. The development of these border security resources is managed within the SBInet and SBI Tactical Infrastructure (TI) Programs. SBInet is responsible for the development, installation, and integration of technology solutions. The SBI TI Program will maintain physical components designed to secure the border, and consists of roads, pedestrian and vehicle fencing, and lights.

The CBP SBInet Program Office serves as the executive agent for the DHS SBInet program. SBInet's strategic goals are to (1) ensure border security by providing resources and capabilities to gain and maintain control of the Nation's borders at and between the POEs; (2) lead the development and deployment of a Common Operating Picture (COP); and (3) provide responsible acquisition management.

In FY 2009, SBInet continued deployment of its COP. The COP provides uniform data to all DHS agencies and is interoperable with stakeholders external to DHS. The COP enables users to make sound tactical, operational and strategic decisions; quickly inform CBP and other DHS components of strategic implications of mission success;

# Overview of CBP

rapidly exchange strategic, operational, and tactical information with supporting commands and interagency organizations; effectively plan, execute and evaluate multiple mission events; and effectively interface with DHS partners to satisfy mission requirements.

DHS's comprehensive plan to gain control of the Southwest Border includes additional substantial investments in technology, infrastructure, and enforcement personnel. The deployment of these resources will depend on the threat levels, operational needs, and current assets in a given area along the border.

As efforts continue to deploy tactical infrastructure and technology solutions across the borders of the United States, SBI remains committed to implementing border security tools that will increase the effectiveness and efficiency of CBP's agents and officers.

## Land Ports of Entry

CBP identified and prioritized repairs, enhancements and replacement projects needed to modernize northern and southern border ports to sustain evolving operational requirements. Current facilities were designed to meet earlier mission requirements and have site configurations that restrict the flow of traffic, or pose constraints that limit the ability to deploy the optimal complement of inspection technology. CBP received \$420 million in ARRA funds to address modernization needs for CBP's LPOEs. These funds are targeted to replace 23 of the 43 LPOEs currently in CBP's inventory. CBP's strategy focuses on increasing the quality of facility performance and facility-related services. The ultimate goal is to improve these critical assets to better meet CBP's mission to secure the nation's border while facilitating legitimate travel and trade.

## National Border Patrol Strategy

CBP's strategy to secure our Nation's borders between the POEs is prescribed largely in the National Border Patrol Strategy. The area between the POEs consist of miles of open space, deserts, waterways, forests, and prairies—making our Nation's borders vulnerable to the threats of terrorism and to exploitation by human smugglers as well as smugglers of drugs and other illicit contraband. The strategic goal of CBP's Office of Border Patrol (OBP) is to gain, maintain, and expand effective control of our Nation's borders between the POEs. To assist in achieving its goal, the Border Patrol implemented the National Border Patrol Strategy that articulates a clear, strategic mission and program purpose to establish and maintain border security. The five main objectives of the National Border Patrol Strategy are the following:



*CBP Border Patrol agent apprehends an individual near the U.S. Border.*



# Overview of CBP

- Establish substantial probability of apprehending terrorists and their weapons as they attempt to enter illegally between the POEs;
- Deter illegal entries through improved enforcement;
- Detect, apprehend, and deter smugglers of humans, drugs, and other contraband;
- Leverage “Smart Border” technology to multiply the effect of enforcement personnel; and
- Reduce crime in border communities and consequently improve the quality of life and economic vitality of these areas.

The primary goal of the National Border Patrol Strategy is effective control of the border, which is achieved by deploying the right mix of resources based on threat potential, vulnerabilities, associated risk, and operational dynamics to reasonably ensure that CBP is able to achieve the following:

- Detect an illegal entry into the United States between the POEs;
- Identify and classify the threat level associated with that illegal entry;
- Respond to the area of the illegal entry; and
- Bring the situation to a law enforcement resolution.

These four elements must be accomplished to establish effective control of the borders. A proper mix of technology, personnel, infrastructure (to include pedestrian and vehicle fencing), checkpoint operations, and rapid response capabilities will facilitate the detection of illegal cross-border activity. The appropriate mix of these components varies depending on the challenges of the focus area and a dynamic border environment.

## Focused Border Security Enforcement Initiatives

The appropriate mix for deployment of Border Patrol resources is determined through OBP’s Operational Requirements Budget Based Program (ORBBP). ORBBP is a rigorous and comprehensive methodology that takes a risk-based approach in determining resource requirements, deployments and operational tactics in a dynamic operational environment. ORBBP allows field commanders to examine and assess all factors, current and future, internal and external, affecting border security and ensures the engagement of the appropriate resources and tactics against current and projected threats and vulnerabilities. Using this methodology, OBP met or exceeded all of its performance targets for border Miles under Effective Control for prior and current fiscal years.

Through the deployment of the right mix of new resources and enforcement operations supported by intelligence activities, the Border Patrol increased the FY 2008 miles of border under effective control from 757 miles to 939 miles at the end of FY 2009, a 24 percent increase.

# Overview of CBP

## *Intelligence Driven Operations: Border Intelligence Centers*

The mission of Border Intelligence Centers (BICs) is to prevent terrorists and terrorist weapons, smugglers and their contraband, and illegal aliens from entering the United States through the real-time collection, analysis and dissemination of tactical intelligence. Originally developed as the Command and Control Intelligence Coordination Center in the San Diego Sector, BICs represent a significant enhancement to CBP's ability to rapidly collect, analyze, disseminate and share intelligence information.

The BICs collect and analyze information through the use of databases, operational statistics, other agency intelligence reports and interviews with apprehended illegal aliens and smugglers, as well as through the use of geospatial decision support tools. The products produced by the BICs support the implementation of coordinated border enforcement operations which result in more effective and efficient deployment of resources to address evolving threats and vulnerabilities. Actionable intelligence is forwarded to decision makers at all levels within CBP and is shared with DHS components and other law enforcement partners. These efforts support CBP's commitment to become a fully integrated intelligence-driven organization.

## *Integrated Border Enforcement Teams*

The Integrated Border Enforcement Teams (IBET) operate as intelligence-driven enforcement teams comprised of U.S. and Canadian federal, state/provincial, and local law enforcement personnel. The IBETs incorporate an integrated mobile response capability (air, land, and marine) designed to provide collaboration and support top participating law enforcement agencies and to serve as a force multiplier to maximize border enforcement efforts in support of CBP's National Strategy. IBETs consist of five core agencies with law enforcement responsibilities within the border area. These agencies share information and intelligence, coordinate operations, and share resources to maximize border enforcement efficiency and effectiveness. The participating agencies include CBP OBP, U.S. Immigration and Customs Enforcement (ICE), U.S. Coast Guard (USCG), Royal Canadian Mounted Police (RCMP) and Canadian Border Services Agency.

Since their inception, IBETs have enhanced border integrity and security on both sides of the U.S. and Canadian border by identifying, investigating, and interdicting persons and criminal organizations that pose a threat to the national security of both the United States and Canada. There are 24 IBETs in 15 IBET Regions. Each of these IBETs actively share information, and work bi-national and joint enforcement operations aimed at securing the integrity of the United States-Canada border.

## **Threat-Based Surge Operations**

OBP has continued to implement and fully utilize surge operations to maintain or gain effective control of the border through improved enforcement. The Border Patrol's strategy for implementing surge operations across the southwest border is based on threats, risks, vulnerabilities and the resources of our partner agencies. These operations increase the probability of apprehending terrorists and the weapons they attempt to move illegally across



# Overview of CBP

the border by entering the United States between the POEs. These operations also help to reduce crime in border communities. Surge operations are implemented to proactively address actionable intelligence, seasonal migration trends, and other trends in cross-border criminal activity.

## *Operation Arizona Denial*

Operation Arizona (AZ) Denial commenced on October 1, 2008 and operated through the end of FY 2009. Operation AZ Denial was designed to promote a level of deterrence to incrementally establish and maintain operational control to prioritized areas of the border within the Tucson Sector, which experiences the highest level of illegal entry attempts. The purpose of the operation is to augment the Tucson Sector through the continued expansion of increased levels of effective control, and to support the mission of anti-terrorism. To ensure that achieved gains are sustained, resources such as SBInet, tactical infrastructure enhancements, and station manpower enhancements, will be deployed to these areas. Arizona Denial uses the following four faceted enforcement strategies to gain operational control of prioritized areas of the border:

- **Breaking the Smuggling Cycle:** Separates illegal aliens granted voluntary return from the smuggling organizations waiting for them upon their return. These programs include the AZ Denial Prosecutions Initiative (ADPI), Alien Transfer and Exit Program (ATEP), and Interior Repatriation Program.
- **Operational Coordination:** Creates partnerships with law enforcement agencies and other stakeholders to coordinate enforcement efforts in support of sector operations.
- **Intelligence Fusion:** Brings CBP and partner agency intelligence personnel together in a single center in which information can be fused, analyzed, and used to create tactical and operational intelligence-driven operations.
- **Focus Enhanced Enforcement Operations:** Rather than being spread throughout the Sector, resource enhancements are focused in support of operations in a priority area. Each individual enforcement assignment, operation, and initiative is used to address one or more of six prioritized border areas of focus.

Operation AZ Denial 2009 provides the roadmap that establishes station and Sector priorities for operational execution.

## *Operation Streamline*

Operation Streamline, an enhanced prosecution effort, is one component of an enforcement model with the desired outcome of reducing illegal cross-border activity by delivering consequences and deterrence. The effort is a collaboration between personnel and resources from DHS, which includes CBP's OBP and Office of the Chief Counsel and ICE's Office of Detention and Removal; as well as resources from the Department of Justice (DOJ), which includes the U.S. Federal Courts, the Executive Office for Immigration Review, and the U.S. Marshals Service. Based on threat levels and illegal entrant activity assessments in the border areas, the OBP focuses its resources on designated zones to ensure the probability of apprehension, detention, criminal prosecution, incarceration, and the ultimate removal of illegal entrants. All aliens in violation of the law that are apprehended within the designated zones are charged and criminally prosecuted for violation of 8 U.S.C. 1325 (illegal entry), with a

# Overview of CBP

potential sentence of up to 180 days. The average sentence ranges from 15 to 90 days for illegal entrant aliens with no prior history.

Operation Streamline began on December 6, 2005 in the Del Rio Sector as a result of increasing apprehensions within this sector, particularly “Other Than Mexicans” (OTMs), who were exploiting the “catch and release process.” Since inception in Del Rio, Operation Streamline has contributed to the dramatic decrease in apprehensions in the sector.

Additional sectors have also implemented Operation Streamline and credit the method for its deterrence of illegal entrants. In December 2006, Operation Streamline was implemented along a small section of the U.S./Mexico Border in Yuma Sector as a tool to mitigate the border violence/assaults. By June 2007, Yuma Sector expanded the operation to encompass a larger section of its southern border with Mexico. Operation Streamline was expanded to Laredo Sector in October 2007 to address increasing entries in specific border zones. The Tucson Sector initiated Operation Streamline in January 2008 along the U.S./Mexico border in an effort to minimize the risk of injury and death to illegal aliens within the sector’s Area of Responsibility (AOR). Finally, the Rio Grande Valley Sector implemented Operation Streamline program in June 2008, along a small section of the U.S./Mexico border, and during Fiscal Year 2009 expanded it to cover a larger section of the border within their eastern area of operations.

## *Caribbean Border Interagency Group*

The mission of the Caribbean Border Interagency Group (CBIG) is to optimize joint efforts and serve as a force-multiplier for our DHS and participating DOJ partners as we work to prevent, detect, and interdict the entry of terrorists, weapons of mass destruction, illegal migrants, and illegal narcotics across shared areas of responsibility. These partners include CBP’s OBP, Office of Air and Marine (OAM), and Office of Field Operations (OFO), the USCG, ICE and the U. S. Attorney’s Office.

CBIG is an effort that embodies the principles of integration and collaboration on which DHS was created. The partnership developed an innovative prosecution template. This process ensures that enforcement efforts include gathering evidence sufficient for successful prosecution of violators of maritime or immigration laws. The USCG’s development of biometric capability at sea is also a key accomplishment and is critical to identifying and categorizing those apprehended as threats. Prosecutions have increased 548% in 2009 as compared to FY06 due to CBIG standard operating prosecution procedures. Due to this collaborative effort, estimated migrant flow through the Mona Channel has decreased 87% (FY 05: 10,053 compared to FY 09: 1,283), since 2005.

## *Operation Stonegarden*

Operation Stonegarden (OPSG) provides funding to designated localities to enhance cooperation and coordination between Federal, State, local, and tribal law enforcement agencies in a joint mission to secure the United States borders along routes of ingress from the International borders, to include travel corridors in the States bordering Mexico and Canada, as well as States and territories with International water borders. OPSG is designed to

# Overview of CBP

incorporate the services of State, Local, and Tribal (SLT) law enforcement agencies for the purpose of enhancing border security and preventing the entry of terrorists and terrorist weapons of mass effect, while at the same time mitigating the conspicuous effects of human trafficking organizations.

The Border Patrol, with its unique operational knowledge of effective border enforcement, leads Operation Stonegarden's locality eligibility and selection process. In order to analyze a level of risk, two primary factors were considered: threat and vulnerability. When determining threat, one looks to determine the catastrophic impact (the level of damage, death, disruption, etc.) that would result by the action or incident, and the ability and intent of the terrorist organization to commit an act. To determine vulnerability, the likelihood, or opportunity, for the action or incident to occur is considered. Threat and vulnerability can vary significantly, so by giving each a value based on specific factors the risk may be calculated for planning purposes.

Fiscal Years 2008 and 2009 program highlights include:

## **FY 2008**

- \$60 million appropriated for FY 2008
- 15 States eligible
- 64 Counties or equivalent operations received awards totaling \$60 million

## **FY 2009**

- \$60 million appropriated for FY 2009
- 38 States/Territories eligible
- 88 Counties or equivalent operations received awards totaling \$60 million
- \$30 million supplemental appropriation for FY 2009
- 30 counties or equivalent operations eligible to receive FY 2009 supplemental award
- 29 counties or equivalent operations received awards totaling \$30 million

## ***Forward Operating Bases***

The use of Forward Operating Bases (FOBs) began in the Tucson Sector to address remote crossing points that, historically, have been difficult for agents to patrol because of the vast distances and time involved to access these areas. FOBs have proven to be beneficial in the detection and deterrence of illegal entries in the areas in which they have been deployed and are now utilized in the Yuma and Del Rio Sectors.

The use of FOBs directly supports the OBP's mission of gaining, maintaining, and expanding operational control of our nation's borders. As OBP continues to gain control of the border, illegal migration activities and smuggler

# Overview of CBP

tactics shift in an attempt to identify and exploit vulnerabilities in border security measures, particularly in the more remote areas of the U.S. border. Strategically placed FOBs provide a cost-effective, secure staging facility that allows agents to be forward deployed in proximity to the border, thus improving our capability to rapidly respond to and counter these shifts in illicit cross border traffic.

## *Border Patrol Checkpoint Operations*

Border Patrol traffic checkpoint operations play a significant strategic and tactical role in the support of the National Border Patrol Strategy. The Border Patrol currently operates a combination of 32 permanent and 125 tactical traffic checkpoints nationwide as part of a three-tiered, defense-in-depth strategy to secure our Nation's border between the POEs. This strategy involves the use of line-watch operations on the border, roving patrol operations near the border, and traffic checkpoints on highways leading away from the border.

The primary targets of an effective Border Patrol traffic checkpoint operation are immigration violators. Specific operational emphasis is placed on terrorists and terrorist weapons, criminals, and smugglers of humans and narcotics who have successfully evaded detection at or between the POEs. Traffic checkpoints deter criminal elements from using major traffic arteries as egress routes from the border, which results in improved effectiveness of line-watch and roving patrol operations. Smugglers use highway infrastructure to further the illegal entry of their smuggling operations into the United States and away from the border. Highways provide a rapid and cheap means of transporting illicit cargo away from the bulk of enforcement assets and to the intended destination. Traffic checkpoints deny routes of egress to the criminal element and force them to take alternate avenues that leave them more susceptible to detection.

Border Patrol agents at the checkpoint are highly trained to identify suspect vehicles and subjects through a combination of visual, auditory, olfactory, tactile, and logic cues during vehicle and interview inspection. OBP also employs specialized resources – such as canines trained to sniff out concealed humans and narcotics, radiation detection equipment, and Vehicle and Cargo Inspection Systems – that enhance agent ability to prevent illegal aliens and contraband from proceeding into the interior of the United States.

During FY 2009, the following border enforcement successes were attributed to OBP traffic checkpoint operations nationwide:

- 15,846 individuals arrested (2.85 percent of total Border Patrol apprehensions)
- 3,921 cases referred for prosecution
- 4,694 narcotic seizure events and incidents (29.44 percent of the total Border Patrol narcotic seizures)

# Overview of CBP

## National Targeting Center

### *National Targeting Center - Passenger*

Created to be the single point of reference for CBP anti-terrorism efforts, the National Targeting Center – Passenger (NTC-P) plays a vital role in the identification of individuals who pose a national security concern at 327 U.S. POEs and 139 Border Patrol stations throughout the United States. While the vast majority of travelers and goods are legitimate, NTC-P is designed to carefully examine the small minority of those who may be involved in terrorism or its attendant concerns (e.g. money laundering, facilitation of travel, etc). The facility is staffed with both permanent and Temporary Duty (TDY) analysts as well as several inter-agency liaisons to provide 24x7 tactical targeting and analytical research support for CBP anti-terrorism efforts.

In addition to providing the field, CBP headquarters, and other U.S. government and law enforcement agencies with in-depth research on suspected terrorist travel, trends, and associates, NTC-P has expanded its operations over the last fiscal year to include:

- A training initiative at 13 ports of entry focusing on the utilization of the Intelligence and Operations Framework System (formerly “Targeting Framework”) to create events and streamline passenger processing;
- Linkage to Interpol’s Stolen/Lost Travel Document (SLTD) database to screen for fraudulent document use;
- Assistance to the Immigration Advisory Teams operating out of nine foreign airports to prevent the boarding of those who will be inadmissible upon arrival to the United States; and
- Development of and linkage to the Electronic System for Travel Authorization (ESTA) program for Visa Waiver country applicants by manually vetting ESTA applicants with potential threats to national security.

Additionally, NTC-P conducts liaison work with the Center for Disease Control (CDC), Central Intelligence Agency (CIA), ICE, Federal Bureau of Investigation (FBI), Transportation Security Administration’s (TSA) Office of Intelligence, Federal Air Marshals, Department of State (DOS), USCG and Citizenship and Immigration Services (CIS) Fraud Detection and National Security unit.

These programs and areas of innovation establish NTC-P as CBP’s preeminent anti-terrorism facility. It is a prime example of pushing our zone of security outward – keeping terrorism at “arms length” by screening passengers before they arrive at the U.S. border.

NTC-P’s international links have been expanded with our partners in Canada, the United Kingdom, and Interpol. In FY 2009, NTC-P established a partnership with other foreign government entities and DHS is in negotiations with additional countries to conduct joint operations headquartered out of NTC-P. While these other centers have varying missions and levels of access to the kinds of data that NTC-P has, the operational exchange of information and the development of like rules has increased the common border security of the United States and participating nations. This partnership has been further enhanced by the strengthening of data sharing agreements between the United States, United Kingdom, Canada and Mexico.

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Finally, NTC-P has worked diligently to develop links within the intelligence community to apply knowledge and tools that can enhance border security through data verification and other techniques to corroborate identity information and gain insight into commercial entities. NTC-P continues to be a participant at many working groups whose main goal is to streamline and facilitate the sharing of information to ensure the continued safety of the U.S. commercial passenger environment. In furtherance of this goal, all NTC-P Watch Commanders have been trained in the Incident Command System network.

## *National Targeting Center - Cargo*

The National Targeting Center - Cargo (NTC-C) is a critical node in CBP's layered enforcement strategy. NTC-C supports CBP cargo-related activities by proactively targeting and coordinating examinations of high-risk cargo in all modes of transportation; provides high-quality research to Container Security Initiative (CSI), Secure Freight Initiative (SFI), domestic analytical units, and other government agencies; and implements new proactive methodologies. NTC-C employs a specialized permanent and TDY staff to provide 24x7 tactical and strategic cargo researches in all modes. NTC-C staff is comprised of CBP officers, Import Specialists, Agriculture Specialists, program managers, and scientists. NTC-C liaisons with officers representing the Food and Drug Administration (FDA), U.S. Department of Agriculture (USDA), Department of Commerce (DOC), ICE, and Drug Enforcement Administration (DEA).

NTC-C identifies companies and cargo linked to identified terrorists and creates Memoranda of Information Received (MOIRs), The Enforcement Communication System (TECS) records, ATS user-defined rules, ATS notes, and Terrorist Identities Datamart Environment (TIDE) nominations. NTC-C conducts user-defined queries for Weapons of Mass Destruction (WMD), Weapons of Mass Effect (WME), Agro-terrorism, and Bio-terrorism threats. NTC-C identifies shipments linked to terrorism, narcotics, and trade-based money laundering. NTC-C conducts research on seized or detained documents from countries of interest relating to terrorism, organized crime, and human smuggling to develop additional targets and makes enforcement referrals to ICE.

NTC-C enhances remote targeting operations in support of the CSI, supports and coordinates the International Container Security (ICS) component of SFI, and supports domestic and CSI/SFI port targeting. During FY 2009, the CSI and SFI operations housed at NTC-C became stand-alone operations with staffing and management structures within NTC-C, providing additional support staffing as workload demands increase.

In FY 2009, NTC-C significantly expanded outbound targeting operations. In support of the DHS mandate to increase southbound validations of weapons shipments to Mexico, NTC-C is aggressively targeting outbound and in-transit shipments to Mexico for weapons. NTC-C coordinates with CBP ports to conduct examinations and with the CBP Mexico Attaché to verify the legitimacy of the shipment and anticipated arrival of the shipment by the Government of Mexico (GOM). NTC-C also reviews outbound and in-transit cargo destined to other high risk countries such as controlled chemicals and dual-use equipment used in the production of WMD/WMEs.

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In FY 2009, NTC-C significantly expanded narcotics and precursor targeting. NTC-C identifies drug trends, conducts tactical post seizure analysis, targets those involved and disseminates intelligence products to CBP, DHS, and other government agencies (OGAs). In addition to targeting for heroin, cocaine, and marijuana, the NTC-C narcotics unit also has nationwide responsibility for targeting precursor chemicals used for the production of methamphetamines, ecstasy, and other dangerous drugs. NTC-C houses the CBP National Post Seizure Analysis Team (NPSAT). NPSAT is comprised of personnel from OFO, the Office of Intelligence and Operations (OIOC), OBP and OAM. NPSAT is institutionalizing and expanding upon the successes of the NTC-C narcotics unit. NTC-C is also aggressively targeting shipments originating in or transiting Mexico for narcotics and precursor chemicals utilizing risk management principles. Targeting is based upon post seizure analysis, intelligence received from the GOM, ICE, DEA, OGAs, Mexican seizure data, and Mexico 24-Hour Rule data.

Under the International Cargo Targeting Fellowship Program, CBP supports the assistance of other countries in developing systems to manage anti-terrorism and security threats by hosting foreign customs officials. The objective is an exchange of information and the refinement of targeting methodologies to identify high-risk cargo shipments. Benefits include working together to effectively reduce terrorism and security risks, maximizing the security and facilitation of the international supply chain, and providing an additional layer in CBP's multi-layered defense strategy to enhance national security. Throughout 2008, NTC-C and Japan Customs and Tariff Bureau Officers engaged in high-risk cargo shipment collaborations. The European Union joined the program when the first representatives from Sweden and the Netherlands began in April 2008. In FY 2009, the International Cargo Targeting Fellowship program was enhanced by outstanding cooperation with Mexico. In April 2009, two representatives from the United Mexican States' Tax Administration Service (TAS) began working at NTC-C on a weekly basis.

In FY 2009, the NTC-C Agricultural/Biological Terrorism Countermeasures (ABTC) Team increased efforts to identify and target shipments and subjects that pose potentially significant risks. NTC-C, Agriculture Program Trade Liaisons (APTL) staff collaborate with the Defense Intelligence Agency (DIA), USDA, and OGAs utilizing the Agricultural Resource Atlas (AgRA) data to identify entities who work with or store biological materials. Law enforcement, government, and commercial databases are used to expand upon the AgRA data to target entities with derogatory information that have the capability and knowledge to utilize biological materials for nefarious purposes.

## Office of Air and Marine

CBP's Office of Air and Marine (OAM) secures the borders against terrorists, acts of terrorism, drug smuggling, and other illegal activity by operating air and marine branches at strategic locations along the borders. Multi-mission aircraft with advanced sensors and communication equipment provide powerful interdiction and mobility capabilities directly in support of detecting, identifying, and interdicting suspect conveyances, and apprehending suspect terrorists and smugglers. OAM maximizes the capabilities of air and marine assets through a cohesive joint



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air operations model for centralized command and control and a responsive and integrated control system for decentralized execution.

OAM works in partnerships with numerous stakeholders in performing its missions throughout the continental United States and the Western Hemisphere. This includes domestic operations at the borders; source, transit, and arrival zone operations; interior law enforcement support; and support to other agencies. Truly crosscutting within DHS and the Federal Government as a whole, the unique capabilities of OAM serve as both a standalone entity and as a force multiplier. To fulfill the CBP mission of border protection, the focus has expanded from a concentration on the southern border to a broader initiative that includes all of our Nation's borders.

## Container Security Initiative

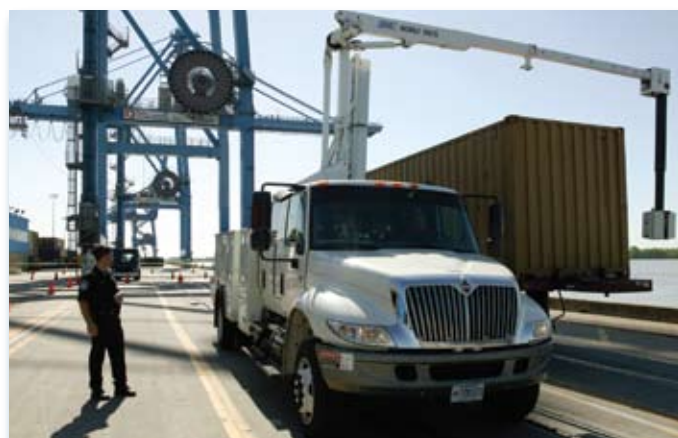
Maritime containerized shipping is a critical component of global trade because most of the world's manufactured goods are transported in maritime cargo containers. In the United States, almost half of incoming trade (by value) arrives by containers onboard ships. More than 9 million cargo containers arrive on ships and are off-loaded at U.S. seaports each year.

Through the Container Security Initiative (CSI), sea cargo containers that pose a risk for terrorism are identified and examined at foreign ports before they are shipped to the United States. CBP receives the bill of lading and manifest data on sea containers 24 hours before the containers are loaded on vessels destined for the United States. Through partnerships with foreign governments, CSI deploys teams of CBP officials to work with their host nation counterparts to screen containers that pose a terrorism risk. CSI extends the U.S. zone of security outward so that America's borders are the last line of defense, not the first.

CSI is a reciprocal program that offers participating countries the opportunity to send their customs officers to major U.S. POEs to target ocean-going containerized cargo being exported to their countries. Likewise, CBP shares information on a bilateral basis with its CSI partners.

CSI consists of three core elements:

- Using intelligence and automated advance targeting information to identify and target containers that pose a risk for terrorism;
- Prescreening those containers that pose a risk at the port of departure before they arrive at U.S. ports; and
- Using state-of-the-art detection technology to scan containers that pose a risk.



*CBP uses the mobile VACIS to inspect cargo contents at the POE.*

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In FY 2009, CBP officers conducted operations in 58 CSI ports overseas. These CSI ports account for approximately 86 percent of cargo containers destined for the United States. During the year, CSI continued to transition CSI TDY personnel to permanent status and place resources at NTC-C to reduce the number of CBP officers deployed. CSI will continue to evaluate and right-size several CSI ports to achieve desired staffing levels.

As of September 30, 2009, 33 foreign administrations have joined or have committed to join the CSI program. Strong support from countries in Europe, Asia, the Middle East, Africa, North and South America, and the Caribbean ensures that CSI will continue to receive cooperation from foreign customs administrations in those areas.

## Customs-Trade Partnership Against Terrorism

Customs-Trade Partnership Against Terrorism (C-TPAT) and its focus on strengthening supply chain security is an important layer in CBP's cargo enforcement strategy. C-TPAT asks its member partners to ensure the integrity of their security practices and communicate and verify the security guidelines of their business partners within the supply chain.

C-TPAT requires trade community participants to document and validate their supply chain security procedures in relation to the program's criteria. C-TPAT Supply Chain Security Specialists (SCSS) and C-TPAT participants jointly conduct validations of the supply chain security procedures. The validation process is essential to verifying the company's commitment to C-TPAT.

In addition to conducting validations, C-TPAT's cadre of SCSSs provide advice and guidance to trade community representatives on supply chain security issues, identify supply chain security vulnerabilities, and monitor company initiatives that address those vulnerabilities. Validations conducted by SCSSs determine the accuracy and effectiveness of companies' security profiles as applied to their foreign and domestic supply chains.

For calendar year 2009, C-TPAT identified 2,888 companies for which the SAFE Port Act requires a validation to be conducted. Of these 2,888 validations, 1,014 were initial validations and 1,874 were revalidations. In addition, C-TPAT identified over 500 Mexican highway carriers who require validations. As of September 30, 2009, C-TPAT has validated 2,572 companies. Of the completed validations, 888 were initial validations and 1,684 were revalidations. Currently, there are 510 initial validations along with 394 revalidations in progress.

During 2009, C-TPAT also performed the necessary field work and testing which enabled CBP to sign a mutual recognition arrangement (MRA) with Japan Customs and Tariff Bureau's (CTB) Authorized Economic Operator (AEO) industry partnership program and laid the foundation for the signing of two additional MRAs in 2010 (Korea and Singapore).

The C-TPAT program also developed a comprehensive Mexico strategy in 2009 which included conducting a series of workshops along the Southwest border, developing an operational plan to TDY SCSS to select southwest

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border ports later in the year to verify compliance with minimum security criteria and selecting high risk Mexico manufacturers to confirm security measures in place.

C-TPAT also organized and executed the annual trade conference in New Orleans which involved more than 1,200 company representatives. The program also organized and executed the first ever C-TPAT Northern Border Highway Carrier conference which involved more than 400 company representatives and provided information to many companies which have never attended a formal C-TPAT conference.

C-TPAT expects to meet its current and projected validation workload for the next two years, but continued membership growth will require CBP to re-examine program resources. C-TPAT will continue to strengthen the validation process, support foreign customs administrations as they stand up their own industry partnership programs and apply persistent pressure on the government of China to allow SCSSs to conduct validations in China or allow CBP to conduct a third round of joint validations with China Customs.

## Secure Freight Initiative

The Secure Freight Initiative (SFI) incorporates a three-pronged approach to enhance supply chain security that includes the International Container Security (ICS) program, the development of a regulation to require additional data elements for improved high-risk targeting (known as Security Filing 10+2), and initiatives to identify and acquire technology enhancements to strengthen cargo scanning and cargo risk assessment capabilities. The Security Filing portion of SFI will be addressed in the “Looking Ahead” section of this report.

### *International Container Security Initiative*

ICS uses an integrated scanning system, consisting of RPMs provided by the Department of Energy (DOE) and NII imaging systems provided by CBP to scan containers as they move through foreign ports. Using optical character recognition technology, data from these systems are integrated and provided to CBP officers, who determine whether the container should be referred to the host nation for secondary examination before lading. For the CBP officers, SFI/ICS provides additional data points that are used in conjunction with advanced manifest data to assess the risk of each container coming to the United States.

On October 12, 2007, CBP met the legislative requirement of the SAFE Port Act of 2006 to establish a pilot program in three foreign ports that couples NII and RPMs to scan all U.S.-bound containers laden in those ports for radioactive and nuclear material. The SFI's ICS program is fully operational and is currently scanning all U.S.-bound containers laden in: Port of Qasim (Pakistan), Puerto Cortes (Honduras), and Port of Southampton (UK).

CBP has gone beyond the legislative mandate and is deploying SFI operations on a limited basis in three additional locations that will provide diverse environments with unique challenges, such as high volume and transshipment ports. These three additional SFI locations are as follows:

- The Modern Terminal in Hong Kong, China (Fully operational in January 2008);

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- The Port of Salalah, Oman (Operational testing is scheduled to begin in early 2010); and
- The Gamman Terminal in Busan, the Republic of Korea (Fully operational in March 2009)

As of April 30, 2009, the SFI pilot at the Modern Terminal in the Port of Hong Kong officially ended by mutual agreement between DHS and the Hong Kong government. This pilot study provided valuable operational lessons on the technical, logistical, and diplomatic challenges associated with scanning maritime containers in a high-volume port such as Hong Kong. CBP and the Hong Kong government have agreed to continue to work together under the current CSI agreement and explore alternative approaches toward enhancing container and trade security through risk management and total supply chain security.

## *100% Scanning Legislation*

On August 3, 2007, the President signed Public Law 110–53, “Implementing the 9/11 Commission Recommendations Act of 2007”, which requires 100 percent scanning of all U.S.-bound containers by July 12, 2012. CBP will continue to work closely with the trade community, industry, and foreign partners to implement 100 percent scanning in a thoughtful, responsible and practical manner that integrates smoothly into the global trade supply chain with minimal if any disruption to the trade.

CBP has developed options for deploying overseas scanning systems to a limited number of strategic locations where the additional scan data would prove the most beneficial to enhance DHS’ risk-based, layered strategy towards securing maritime cargo. These locations were identified through a collaborative analysis between CBP, DoD, DOE, and DOS. CBP used a risk matrix, which fuses the DOE Megaports Initiative with CBP’s data analysis. The risk-based matrix incorporated data that assessed risk based on transnational terrorism threats, the countries’ commitments to securing nuclear material, political violence, high-risk shipment volume, and additional social and political filters such as crime, port security and tolerance for corruption.

These options focus deployments of SFI operations in strategic locations through which potentially high-risk containerized U.S.-bound cargo transits or originate, and will provide additional data to CBP officers for assessing the risk of those containers laden at an SFI port. This strategic approach is consistent with DHS’ risk based and layered approach to securing maritime containerized cargo.

## **Canine Enforcement Teams**

CBP has the largest and most diverse law enforcement canine program in the United States. CBP canine officers and border patrol agents use specially trained detector dogs to combat terrorist threats, identify explosive threats, and interdict concealed persons, currency, agriculture, narcotics, and other contraband at the POEs, at international mail facilities, and along the border between the POEs. Some CBP detector dogs are trained to perform Border Patrol Search and Rescue (SAR) missions. In FY08, Border Patrol initiated the Special Response Team (SRT) Patrol Canine program, training these teams for use in tactical high stress situations. These teams are also another tool

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in CBP's ongoing effort to combat border violence to prevent assaults against agents and illegal aliens and control criminal activity along the border. At present there are 11 teams deployed along the Southwest Border.

Canine teams are assigned to 78 POEs and 120 Border Patrol stations, sectors, and special operations groups throughout the United States. OBP has organized a canine/horse patrol unit which will allow the canine to be worked alongside the handler riding on horseback. To meet both new and growing threats, the CBP Canine Program has trained and deployed canine teams in an array of specialized detection capabilities. CBP has two canine enforcement training facilities, located in Front Royal, VA, and El Paso, TX. In FY 2009, CBP trained approximately 657 detector dogs at its training academies.

## **Expedited Removal Program**

A key element of CBP's ongoing effort to deter illegal entry is the implementation and expansion of the Expedited Removal (ER) program to all Border Patrol sectors. ER is a removal process that requires mandatory detention of select classes of illegal aliens who can be removed from the United States without an immigration hearing. The ER process also has built-in provisions to address aliens who believe they have a claim to credible fear. An alien who claims credible fear is interviewed by an asylum officer who determines whether or not the alien has a bona fide claim. If a claim is determined to be valid, the alien is not removed from the United States under the provisions of the ER program.

The program was expanded to include illegal aliens apprehended by Border Patrol on the southwest border and later extended to include apprehensions on the northern border. This includes illegal aliens who are present in the United States without having been admitted or paroled following inspection by a CBP officer at a designated POE and within 100 miles of the U.S. border. It also includes those who are unable to establish their physical presence in the United States for the two week period before the date of encounter.

In the more than three years since the announcement of the end of "catch and release", the ER program has become a routine way of doing business. As of September 30, 2009, all aliens apprehended along the southwest and northern borders who are subject to detention pending removal and are otherwise ineligible for release from custody under U.S. Immigration law are now being detained for removal utilizing the ER program if the alien meets the guidelines. There are a few exceptions based on humanitarian reasons, but these cases are reviewed on a case-by-case basis. In FY 2009, the Border Patrol apprehended 45,283 OTM aliens at the southwest border, 3,130 along the northern border, and 4,242 on the coastal border, of which all of those subject to removal were detained.

## **International Liaison Unit**

The mission of the International Liaison Unit (ILU) is to create and maintain positive working relationships and to foster alliances with foreign counterparts to increase border security. The alliances established by the ILU maintain open communications and mutual respect with foreign and domestic law enforcement counterparts. Previously

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named the Mexican Liaison Unit (MLU), which started in El Centro, CA the MLU was reorganized in FY 2008 as the ILU to standardize national policies and procedures for international liaison. Today, the ILU is operational in all Southwest Border Patrol sectors and has dedicated manpower resources of approximately 32 agents, with a coordinator in Washington, DC, and one coordinator in each of the sectors participating in the program. Their success was the direct result of relationships formed with Mexican authorities in Federal, State, and local law enforcement having the common goal of border safety and security.

The ILU strategic goals are as follows:

- Establish, develop, and maintain effective relationships of trust and confidence with individuals representing their foreign government agencies;
- Identify and develop common law enforcement objectives with foreign governments to combat border crime;
- Cultivate and reinforce commitment with foreign and domestic law enforcement communities; and
- Develop and maintain information sharing with foreign and domestic law enforcement agencies.

Agents serving under the ILU focus and engage in activities that complement and support current program operations as well as agency and department enforcement strategies.

The ILU's established partnerships have helped pave the way for programs like the Border Violence Protocols program, formed in an effort to reduce and provide a response to increased violence in the immediate border area along the southwest border, and the "Operation Against Smugglers Initiative on Safety and Security" (OASISS). OASISS was a product of the United States-Mexico agreement to establish a bilateral, standardized prosecution program. The OASISS program was developed to address the increasing amount of alien smugglers across the Southwest border. The program allows for alien smugglers apprehended in the United States to be prosecuted by the Government of Mexico (GOM). This program has been very effective in areas along the Southwest Border that are affected by guidelines that make it difficult to prosecute certain alien smuggling cases. In FY 2009, 479 OASISS cases were generated, with 509 principals were accepted for prosecution by the GOM.

## Consolidated Trusted Traveler Program

The Consolidated Trusted Traveler Program (CTTP) is an umbrella of CBP's Trusted Traveler Programs [NEXUS (a joint venture between Canadian and U.S. authorities), the Secure Electronic Network for Travelers Rapid Inspection (SENTRI), the Free and Secure Trade program (FAST), and Global Entry] that use a common automated system to register program enrollees and perform automated identification and validation. The goals of the program are to identify and expedite low risk travelers, and to free CBP officers to increase security at the POEs by enabling them to concentrate on higher-risk travelers.

NEXUS and SENTRI are land border management processes that provide expedited CBP processing for pre-approved, low-risk travelers. In addition, NEXUS offers expedited CBP processing in selected Canadian preclearance airports.

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Applicants must voluntarily undergo a thorough biographical background check against criminal, law enforcement, customs, immigration, and terrorist indices. In addition, a personal interview with a CBP officer is required. Once an applicant is approved, they are issued a Radio Frequency Identification (RFID) card that will identify their record and status in the CBP database upon arrival at the U.S. POE. This allows users to have access to specific, dedicated primary lanes for processing into the United States. For NEXUS participants in the preclearance airports, the member's iris is scanned allowing users to have access to the self-service kiosks.

The FAST commercial driver program is the result of the United States, Canada, and Mexico Border Partnership Action Plan (PAP). The FAST program provides expedited processing of participants' qualifying merchandise in designated traffic lanes at select border sites. These designated FAST lanes allow FAST qualified shipments a nearly unencumbered approach up to and through the commercial facility.

Global Entry, CBP's newest trusted traveler program in the airport environment, was announced as a pilot program in June 2008. The program is available at seven airport locations: Atlanta, Chicago, Dulles, Houston, JFK, Los Angeles, and Miami International Airport. CBP will be completing the rulemaking process to make Global Entry a permanent program that will expand to an additional 13 airports by the end of 2009.

## **Admissibility Review Office**

CBP's Admissibility Review Office (ARO) provides institutional knowledge and a consistent decision-making approach regarding the admissibility, inadmissibility, and exercise of discretion for inadmissible aliens under the Immigration and Nationality Act (INA). The ARO works extensively with DOS and other agencies to determine whether inadmissible aliens can legally travel as non-immigrants with waivers. Each case requires an assessment of the risk of harm to society if CBP admits the alien, which the ARO balances with the alien's reasons for wanting to travel.

The ARO currently processes and adjudicates all waivers of inadmissibility that DOS consular officers recommend worldwide and decides all government non-immigrant waivers. It also processes and adjudicates all waiver applications submitted directly to CBP by individual international travelers.

## **Fraudulent Document Analysis Unit**

The Fraudulent Document Analysis Unit (FDAU) was established in 2005 to act as a central location for the collection and analysis of fraudulent travel documents seized by CBP officers nationwide. The mission of the FDAU is to remove fraudulent travel documents from circulation and prevent the use of these documents by mala fide travelers attempting to enter the United States. Since its inception, the FDAU has received over 158,000 fraudulent documents. The FDAU receives documents that are counterfeit, altered, presented by impostors, or otherwise obtained by fraud or intended for fraudulent use. Genuine documents presented by imposters make up the vast majority of the fraudulent documents received by the FDAU.



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The FDAU manages the CBP Fraud Prevention Program (FPP). The goal of the FPP is to increase fraudulent document interceptions by expanding access to standardized training, high quality document examination equipment, and current information on fraudulent document use and fraud trends. One hundred and forty two CBP officers have been designated as Fraud Prevention Officers (FPO), and have been tasked with sharing information regarding document fraud and fraud trends, creating reports on fraudulent document use, conducting document examination training and working closely with headquarters on matters related to document examination and document fraud.

As part of the FPP, CBP purchased 78 Video Spectral Comparator (VSC) document examination workstations. These workstations were delivered to 58 ports of entry, 4 international mail and/or cargo facilities, 5 preclearance locations, 3 Immigration Advisory Program (IAP) locations, and the CBP Academy and the CBP Advanced Training Center. A VSC is a comprehensive document examination instrument that assists its users in detecting document forgeries and identifying the differences between forged and genuine documents.

The FDAU also manages the Carrier Liaison Program (CLP). The mission of CLP is to enhance border security by increasing commercial carrier effectiveness in identifying improperly documented passengers destined for the United States. CLP uses interactive training, which allows participants to engage in hands-on instruction in fraudulent document identification, passenger assessment, impostor identification, and travel document verification. The CLP team has developed innovative training products, including a sample travel document that allows participants to examine dozens of common security features. Since its inception, CLP has provided training to over 19,800 airline industry personnel in 110 countries on 287 training missions. CLP developed standardized training material for the carrier industry and has developed a Vessel Inspection Guide for the seaport industry.

CBP has partnered with Dutch law enforcement authorities regarding Electronic Documentation and Information System in Investigation Networks with Information of Travel Documents (Edison-TD). Edison-TD is a stand-alone global database used for the verification of travel and identity documents. The FDAU is the U.S. representative on the Edison-TD steering committee. The FDAU is currently coordinating access to the online version of the database, which will be available for use by CBP officers at all POEs and facilities.

## Enforcement Information Technology Advances

### *Advance Passenger Information System*

The Advance Passenger Information System (APIS) is the single most critical element in our ability to identify dangerous individuals entering or departing the United States. Through this system, CBP receives biographical and travel document information on passengers and crew arriving in and departing from the United States by air, sea, and in some cases, land (from commercial bus and rail operators).

APIS data is received in advance of a traveler boarding the intended aircraft or departing on a commercial vessel, allowing CBP to screen all travelers against government watch lists and provide a screening response to carriers.

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CBP receives advance information on passengers and crew that is also sufficient for basic law enforcement automated queries that look for matches with multi-agency law enforcement alerts, immigrant visas, and historical databases. The APIS process has also been modified to incorporate ESTA screening to allow carriers to use the existing APIS processes to meet new ESTA requirements.

Additionally, in an effort to secure our nation's borders and protect national security, CBP published the Advance Information on Private Aircraft Arriving and Departing the United States Final Rule in the Federal Register on November 18, 2008. The rule requires private aircraft pilots, or their designees, to transmit electronically to CBP traveler manifest information for each individual onboard the aircraft. CBP now conducts watch list and law enforcement screening of APIS data for both commercial and private aircraft arriving in or departing from the United States.

## *COMPSTAT*

OBP has implemented COMPSTAT, a “comparative statistics” tool created to support OBP field and headquarters personnel by providing enterprise-wide data in a flexible, robust, and user-friendly reporting tool. The comparison of enforcement statistics which shows changes in activity, has always been used throughout the Border Patrol to continuously adjust operations. COMPSTAT is a tool that assists the process of making operational adjustments more efficient by providing actual enforcement statistics to field commanders and headquarters staff in a usable format, as well as an “available on demand” fashion.

COMPSTAT is a desktop accessed system that provides timely statistical reports containing a compilation of data from multiple systems used within OBP, including Enforcement Case Tracking (ENFORCE), the Border Patrol Enforcement Tracking System (BPETS), and Intelligent Computer Assisted Detection (ICAD), and display the results in a usable and understandable format. For FY09, dozens of pre-formatted reports were made available in COMPSTAT. These reports allow users to enter a limited number of parameters and compile data for a specific sector or station as well as a specific date range. Comparisons can also be viewed in order to see changes in activity levels for different time periods. Data provided by the COMPSTAT application will provide valuable operational and tactical information for field analysis. Additionally, a HQ COMPSTAT module was added to the application for Headquarters and Sector Staff to have visibility into a higher, more strategic level of reporting functionality. COMPSTAT is currently available to all OBP sectors and stations.

## *e3 Prosecutions*

e3 is a web-based application. The deployment of e3 technology further enhances the ability of tactical field commanders to make informed and operationally effective decisions. e3 Prosecutions serves as a central repository to capture information related to the day-to-day processes by which criminal prosecution activities are identified, assigned, performed, managed, scheduled, and measured. The information will be used to analyze effectiveness and efficiency as it relates to the overall mission of securing the Nation's borders.

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Within general guidance from the DOJ, each U.S. Attorney's Office has its own priorities, and prosecutorial guidelines. e3 Prosecutions is a web-based application with the flexibility to adapt to local procedures and regulations as it relates to the form and function of collecting, submitting, and reporting of data, legal articulation, and court documents associated with disparate court locations. e3 Prosecutions has ample depth to collect, manage and report activities related to cases handled utilizing administrative resolutions or referred to outside agencies. e3 Prosecutions allow for electronically submitting and exchanging prosecution case data between other federal agencies. This establishes a partnership for efficient parallel missions by eliminating redundant manual data collection. e3 Prosecutions was also developed to manually capture and subsequently update critical data locally during systems failures, for timely submission to the U.S. Attorney and the Judiciary.

## *Enterprise Geospatial Information Services*

The Enterprise Geospatial Information Services (eGIS) is a web-based mapping application that provides agents and analysts with the ability to create and view spatial data. As a whole, eGIS is a complete business process that encompasses spatial data collection, cartography and analysis and web based mapping functionality.

eGIS data collection efforts focus on Global Positioning System (GPS) collection of border patrol station locations, technology deployments, tactical infrastructure deployments and foundation level data, such as aerial imagery and transportation layers. Cartography and analysis is supported through the Geospatial Service Center located at CBP Headquarters, while web based map development is supported through the CBP Office of Information and Technology.

## *Intelligent Computer Assisted Detection*

The Intelligent Computer Assisted Detection (ICAD) application supports real time tracking of OBP's covert sensor network and serves as the foundation for monitoring agent status and safety. ICAD displays sensor activations and allows Sector enforcement specialists to document sensor response and disposition. ICAD also provides the ability to report and analyze sensor activations over time.

## *Radiological and Nuclear Detection/Non Intrusive Inspection Program*

The mission of the Radiological and Nuclear Detection/ NII program (RADNUC/NII) Program encompasses a variety of technologies. The RADNUC program consists of any piece of equipment that enables an agent to scan, detect and identify any radiological/nuclear material concealed within an object. The NII Program encompasses equipment that utilizes various x-ray technologies to locate concealed narcotics, guns, explosives, money and stowaways.

During FY09, OBP substantially increased its radiological and nuclear threat detection capabilities by increasing the number of fielded RIID by 169. This added capability more than doubled the detection capabilities of the field agents.

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OBP also purchased and deployed four Z-Backscatter Fords (zBF) and deployed them at various locations in Texas, Arizona and California. These units provide the agents an enhanced probable cause and consent search capability at traffic checkpoints to more effectively and efficiently reveal concealed contraband in passenger and commercial vehicles.

## **Mobile Surveillance Systems**

OBP has 41 Mobile Surveillance System (MSS) units deployed along the Northern and Southern Border. The combination of electronic surveillance sensors, when applied in concert with appropriate tactics, techniques and procedures, enhance the ability of CBP to detect, identify, classify, and track persons attempting to enter the United States by other than legal or lawfully approved avenues of approach and/or entry. The deployment of this equipment helped CBP meet its additional goal of increasing border protection capabilities within its allotted manpower. Future procurements for additional MSS units are underway for FY 10.

## **Mobile Processing Center**

The Mobile Processing Center (MPC) is a 53-foot, reconfigured semi-trailer that provides a mobile solution to mass migration, remote processing and disaster related incidents. Through the MPC, agents are linked via satellite to the DHS/CBP network with access to ENFORCE, IAFIS, e-mail, internet, and other law enforcement systems. Additionally, agents are provided with a platform utilizing the Radio Interoperability System (RIOS) to communicate with other federal, state, and local agencies. The MPC is used to assist with emergency responses such as a command center for terrorism related and disaster-relief situations.

## **Immigration Advisory Program**

The Immigration Advisory Program (IAP) is a partnership with foreign governments and commercial airlines to identify and deny boarding to high-risk travelers using advanced targeting and passenger analysis information at foreign airports before boarding aircraft bound for the United States. The goals of IAP are to protect air travel and improve national security. IAP has four major objectives:

- Enhance border and air travel security by preventing terrorists and other high-risk passengers from boarding commercial aircraft destined for the United States;
- Disrupt alien smuggling and human trafficking air routes;
- Combat the proliferation of fraudulent travel documents used by terrorists and alien smuggling organizations; and
- Prevent improperly documented passengers from traveling to the United States.

CBP deploys officers to key international hub airports to assist and train air carriers and host country authorities on how to screen and identify prospective passengers before they board flights to the United States. With this added

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security layer, CBP can respond to suspected overseas threats before flight departure and avoid delaying, canceling, or diverting flights destined to the United States.

In FY 2009, IAP resulted in 2,776 no-board recommendations to host government authorities, of which 212 were confirmed NTC targets, and 38 were identified as fraud cases and referred to host government and local law enforcement officials for further action. The no-board recommendations saved carriers over \$4.5 million in fines and saved the U.S. Government \$4.1 million in avoided processing costs. From the inception of IAP through September 30, 2009, IAP has saved the airlines \$12.3 million in fines and the U.S. Government \$11.3 million in processing costs. These cost savings were the direct result of 7,554 no-board recommendations, of which 472 were confirmed NTC targets and 261 were identified as fraud cases and referred to host government and local law enforcement officials.

IAP first became operational in Amsterdam and Warsaw in 2004 and is now operational at 9 locations in 7 countries, to include Tokyo, London-Heathrow, Frankfurt, Seoul, Madrid, London-Gatwick, and Manchester. In addition, CBP is working to expand IAP to several additional sites.

The Intelligence Reform and Terrorism Prevention Act of 2004 requires CBP to identify 50 foreign airports for potential IAP expansion. CBP has identified these airports and will monitor the locations to ensure IAP growth is achieved and available resources are properly managed. To continue IAP expansion CBP will pursue opportunities with foreign governments as they emerge.

CBP is in negotiation with several foreign governments regarding IAP expansion. Some possible locations include Paris, Taiwan and Hong Kong. Negotiations are also under way with governments in countries where IAP is currently deployed to expand IAP to additional airports in those countries.

## Border Safety Initiative

The Border Safety Initiative (BSI) was initiated in June of 1998, building on the longstanding public safety and humanitarian measures practiced by the U.S. Border Patrol. The primary objective of the BSI is the reduction of injuries and prevention of deaths along the southwest border region. Over the past several years, unscrupulous alien smugglers have moved migrants into more remote areas with hazardous terrain and extreme conditions. In particular, the BSI is intended to inform potential migrants of the hazards of crossing the border illegally and to respond to those who are in a life-threatening situation. Through the BSI initiative, OBP works closely with the government of Mexico to discourage illegal crossings and to identify those who have perished in the desolate border terrain.

## Western Hemisphere Travel Initiative

The Intelligence Reform and Terrorism Prevention Act of 2004 requires DHS and DOS to develop and implement a plan to require all travelers (U.S. citizens and foreign nationals alike) to present a passport or other acceptable

# Overview of CBP

document that denotes identity and citizenship when entering the United States. Congress amended portions of the Act in 2006. The Western Hemisphere Travel Initiative (WHTI) is the joint DOS/DHS plan to implement this 9/11 Commission recommendation and congressional mandate. The goal of WHTI is to strengthen border security and facilitate entry into the United States for citizens and legitimate international visitors.

WHTI was successfully implemented for air travel on January 23, 2007. Since then, compliance has been and continues to be extremely high (more than 99 percent). On January 31, 2008, CBP ended the practice of accepting oral declarations of citizenship alone for United States and Canadian citizens entering the United States across land borders. With the implementation of WHTI at land and sea POEs on June 1, 2009, travelers are required to present acceptable documentation to support their citizenship claims. To date, compliance at the land border is more than 95 percent. Beginning June 1st, acceptable documents included a passport, a U.S. passport card, and enhanced driver's license, or a trusted traveler card (NEXUS, SENTRI, and FAST).

CBP collaborated with DOS to develop the passport card for U.S. citizen use at the land borders. This document uses advanced technology, including vicinity RFID technology, to facilitate the primary inspection process and costs less than the standard U.S. passport book. To date, over 2 million passport cards have been issued. The DOS-issued Border Crossing Card (BCC) is modeled after the passport card and has vicinity RFID capability. It contains multiple layers of overt, covert, and forensic security features, making it as counterfeit and tamper resistant as the passport card. The vicinity RFID capability provides for the same electronic verification of the document as the passport card, which is a significant security enhancement over physical features alone. Over 352,000 BCCs have been issued.

RFID has been used successfully along U.S. land borders since 1995. Through trusted traveler programs, such as NEXUS, SENTRI, and FAST, U.S. border officials are able to expedite legitimate cross-border travel and trade. Membership in these programs currently exceeds 652,500. Integral to the successful implementation of WHTI is the deployment of vicinity RFID infrastructure to the POEs to read the enhanced travel documents. Installation has been completed in 377 lanes at the 41 high-volume land border POEs and 3 lanes at the Federal Law Enforcement Training Center (FLETC).

CBP has entered into an agreement with the States of Washington, New York, Vermont, and Michigan to produce enhanced driver's licenses (EDL) that would meet the requirements of WHTI for border crossing. Washington has issued more than 104,000 EDLs; New York over 212,000; Vermont over 9,900; and Michigan over 88,500. In addition, the Canadian provinces of British Columbia, Ontario, Manitoba, and Quebec have instituted EDL's for their residents. British Columbia also issued over 21,600 EDL's, Quebec over 31,500; Manitoba over 6,600; and Ontario over 14,700.

CBP has deployed the new Vehicle Primary Client software application to U.S. land border ports. This critical software quickly and effectively provides officers with vital information on border crossers. The training and deployment of the new software is completed at all the WHTI implemented sites. The software is currently deployed at over 580 lanes across the land borders.

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## U.S. Visitor and Immigrant Status Indicator Technology

U.S. Visitor and Immigrant Status Indicator Technology (US-VISIT) program launched in 2004 continues to be deployed at many of our land, sea, and air POEs. This system provides CBP officers at primary and secondary inspection stations with biometric identifiers such as fingerprints (using an inkless fingerprint scanner) and photographs (using a digital camera) to verify the identity of foreign nationals wishing to enter the United States. During FY 2008, CBP began deployment of 10 fingerprint scanners to primary POEs. US-VISIT's biometric information thwarts identity fraud by providing unalterable, unassailable identity information. It is an integral part of the entry-exit system that provides CBP with unique identity information to help determine whether someone has remained in the country longer than authorized. This system interacts with existing criminal databases that identify people with criminal histories and those who may be linked to terrorist activities.

## Capacity Building

CBP is committed to a number of international initiatives aimed at facilitating legitimate travel and trade. CBP continues to collaborate and enhance its partnership with the following nations/international organizations: Canada, China, Mexico, World Customs Organization, and the European Union. CBP's international capacity building efforts are designed to improve international relationships and enhance border security by assisting in the adoption of best practices and the development of infrastructure that will allow foreign partners to keep pace with changes in the global environment, securing the smooth and safe flow of people and goods.

CBP supports the World Customs Organization's Framework of Standards to Secure and Facilitate Trade (SAFE) by sharing best practices and implementing training modules to protect the global supply chain from the threat of terrorism. CBP's international capacity building efforts are focused on the following areas: international narcotics and crime control; non-proliferation; export control and related border security; commercial enforcement operations; and private sector partnership programs. Each program begins with a border security assessment designed to determine the type of training and/or equipment needed to improve operations within the host foreign country. Additionally, the assessments provide the host government with a better understanding of their border control vulnerabilities.

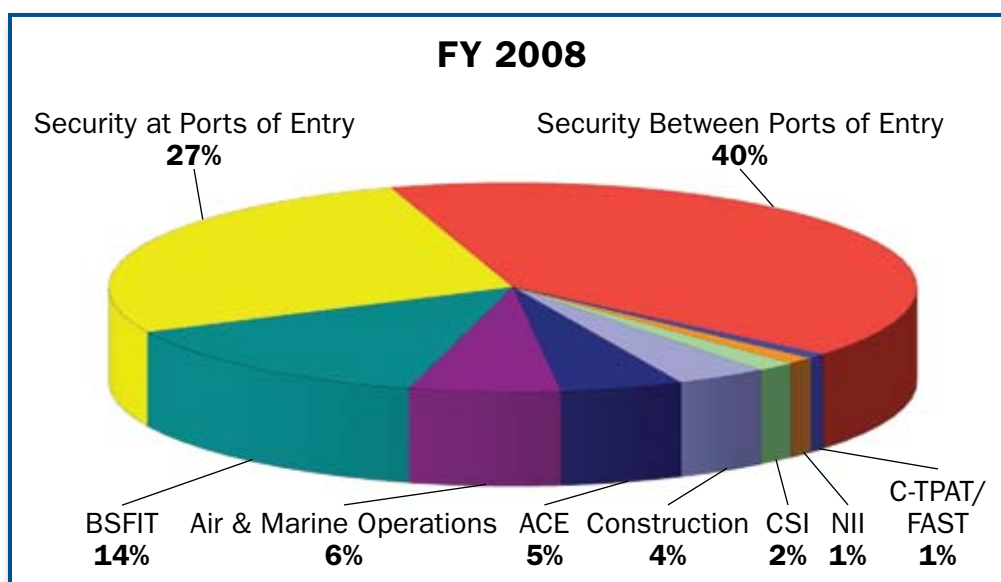
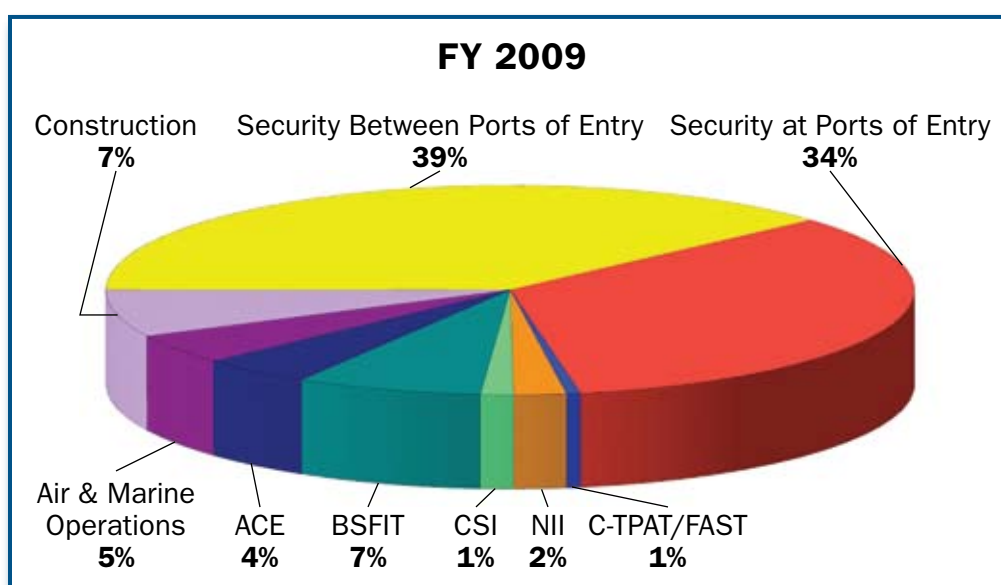
To address the identified vulnerabilities, CBP has established joint partnerships with international organizations, federal government agencies, and other foreign partners. Funding for these programs is provided by a number of entities including the International Law Enforcement Academy, DOS' Bureau of International Security and Non-proliferation, US Agency for International Development, DoD, DOE, and the Defense Threat Reduction Agency. In FY 2009, CBP has provided capacity building support to over 80 countries.



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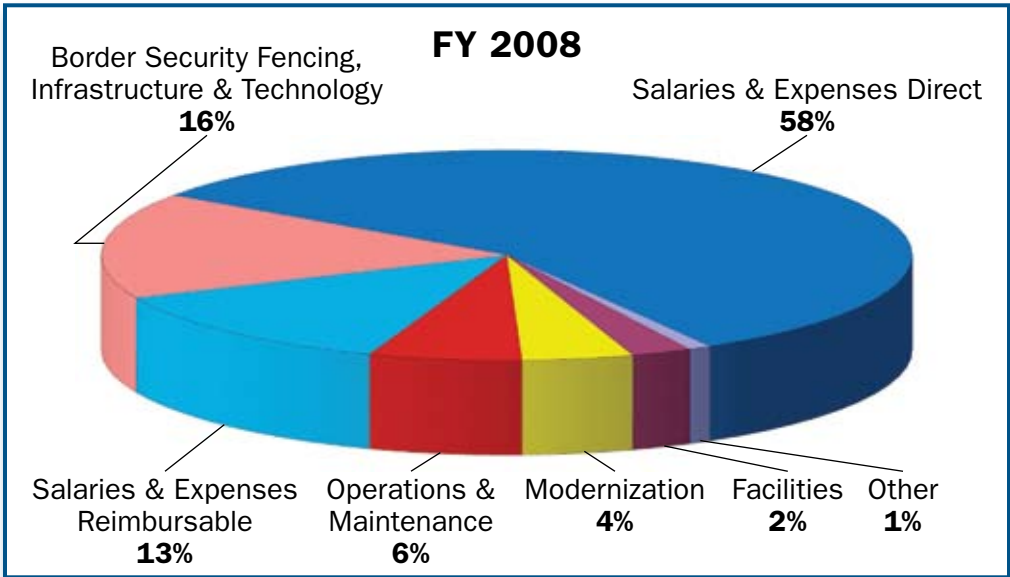
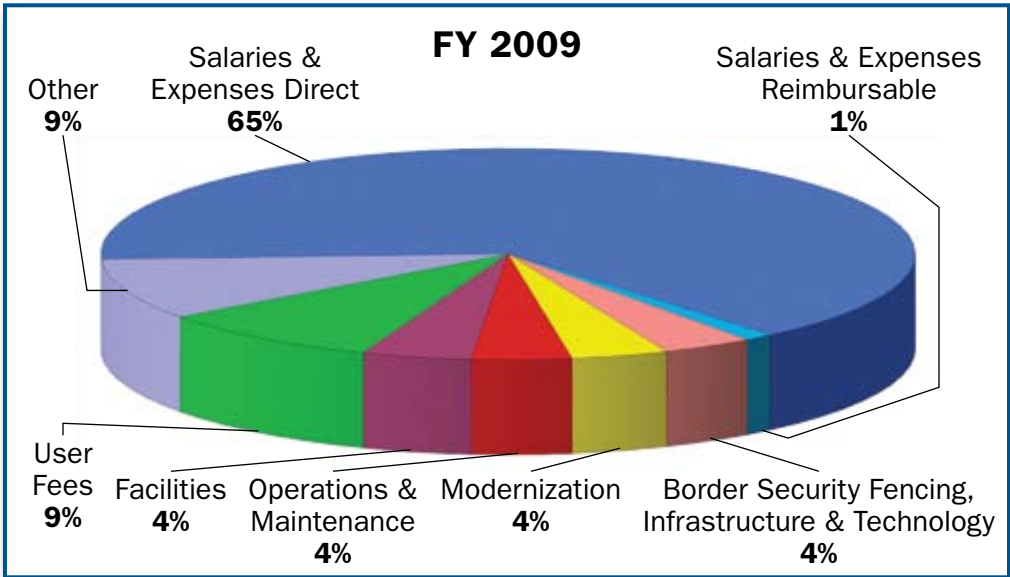
## Budget by Program

The charts below present a comparison of the fiscal year budgets by major program element for FY 2009 and FY 2008. These charts are based on appropriated budget authority received of \$11.4 billion in FY 2009 and \$9.4 billion in FY 2008. The FY 2009 appropriated funds equal total appropriations of \$13.2 billion shown on the Consolidated Statement of Budgetary Resources, less \$1.4 billion in CBP non-entity activity and \$391 million in adjustments to appropriated authority during FY 2009. The FY 2008 appropriated funds equal total appropriations of \$11.9 billion shown on the Statement of Budgetary Resources, less \$2.5 billion in CBP non-entity activity and User Fee authority.



Budget Resource Obligations

The charts below present a comparison of the distribution of CBP budget resource obligations for FY 2009 and FY 2008. These charts are based on current year entity obligations totaling \$11.7 billion in FY 2009 and \$11.8 billion in FY 2008. These totals do not include non-entity obligations and obligations related to prior year appropriations totaling \$2.9 billion during FY 2009 and \$2.8 billion during FY 2008 included in the Consolidated Statement of Budgetary Resources obligations totals of \$14.60 billion and \$14.63 billion for FY 2009 and FY 2008, respectively.



# Overview of CBP

## Looking Ahead

CBP continues to expand and enhance mission effectiveness by its forward-looking approach to secure America's borders and the vitality of our economy.

### **CBP Office of Air and Marine**

Since submitting its initial Air Strategic Plan, the Office of Air and Marine (OAM) has made significant progress in achieving its planned end-state. OAM has deployed assets in a regional "clockwise" approach. In FY 2006, assets were deployed along the southwest border; assets were deployed to reinforce the northern border in FYs 2007, 2008 and 2009; and for FY 2010, asset deployments will focus on the Southeast Coast Border Region. This approach takes into consideration the entire national border, best addresses threats, and increases efficiency and operational effectiveness.

OAM continues to strategically address threats and challenges by deploying additional air and marine assets, facilities, and personnel. Multiple aircraft procurements are on contract and have been funded, or are pending contract award. OAM has identified new site requirements to expand its surveillance and interdiction coverage across the maritime approaches to the United States and is addressing personnel needs by hiring additional agents and staff. Concurrent with these efforts, OAM continues to build management and infrastructure systems that will effectively support field operations, including CBP agents and officers on the ground.

In FY 2009 Air and Marine continued to standardize and modernize its fleet in support of the OAM Strategic Plan to recapitalize aging aviation and marine assets. Inventories of helicopters, fixed wing, unmanned aircraft systems, and interceptor vessels were expanded with new acquisitions and deliveries of prior year procurements. This multi-year investment in Air and Marine capital assets will help to support expanded border surveillance and maritime domain awareness.

### *Unmanned Aircraft System*

Beginning in November 2004, CBP conducted test programs using unmanned aircraft for surveillance missions along the U.S./Mexico border in Arizona. The test results were very positive and CBP initiated the UAS program in 2005. The UAS provides an efficient and reliable supplement to existing detection and intelligence gathering technologies. Unmanned aircraft have a significant advantage over manned aircraft with the capacity to fly more than 30 hours without refueling. This technology has proven highly successful in supporting existing manned aircraft, maintaining current ground assets, and monitoring remote portions of the border that are often difficult to reach safely or are unable to accommodate infrastructure devices. Since the start of operations in 2004, UASs have been instrumental in the apprehension of undocumented aliens, the seizure of drugs, and the recovery of stolen vehicles. UASs have proven effective in locating subjects during hours of darkness and providing a situational awareness and officer safety capability that is unparalleled.

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In March 2008, CBP OAM hosted a Joint Maritime UAS viewing at Tyndall Air Force Base (AFB), FL. The event was the culmination of more than a year's work to deploy and demonstrate the integration of a variant of the Predator B UAS within OAM and USCG maritime operations. The demonstration took place in the northern Gulf of Mexico and the Florida Straits and involved air and marine assets from OAM and USCG. This Gulf Coast demonstration validated the usefulness of integrating a suite of sensors (radars, electro-optical, and automated identification system (AIS)) on a UAS and applying them in an operationally relevant environment. In July 2008 OAM hosted a Joint Requirements summit to determine the required capabilities of sea search radar for the maritime variant. During FY 2008, OAM also conducted test and evaluation flights along the northern borders of the United States. Of the 6 UAS funded in FY 2006 and FY 2007, the sixth was delivered in January 2009. The FY 2009 enacted budget provided sufficient funding for a seventh UAS, which was delivered during the third quarter of FY 2009.

UASs will continue to be used in securing the border of the United States by providing strategic intelligence, surveillance, and interdiction support. CBP was the first Federal law enforcement agency to fly unmanned aircraft on a sustained basis, outside of controlled airspace, within the United States. UAS operations will expand as additional systems are delivered to the southwest border, deployed for test and evaluation to the northern border, and re-outfitted with maritime search radars for testing and evaluation in the southeast coastal area of responsibility. It is envisioned that 3 UAS squadrons of 18 UASs will be utilized by OAM in its effort to control the borders of the United States.

In the future, OAM will maintain command and control of expanding UAS operations through the Air Marine Operations Center (AMOC), including flight control of the mission segment and collection of sensor data from the AMOC. The AMOC will oversee the air tasking of UAS's in all operational regions. Tactically, OAM UAS Operations Centers will conduct launch and recovery missions via locations that provide access to the National Airspace System (NAS) from restricted airspace.

## *Marine Program Expansion*

The FY 2008 consolidated appropriation provided OAM funding to establish 11 additional marine sites consistent with the OAM Strategic Plan. Six of these sites are planned along the Great Lakes region, one in Maine and the remaining in the central Caribbean approaches to the United States. This appropriation additionally provided funding for 82 employees for these 11 sites.

The FY 2009 consolidated appropriation provided funding for 115 additional employees specifically to complete the staffing requirements as well as funding to commence purchasing necessary vessels for the 11 sites.

## **Outbound**

The Outbound Policy and Programs (OBP) Division is responsible for the enforcement of U.S. export laws and regulations. The OBP mission is to interdict the illegal export of unreported currency (to include proceeds from narcotics trafficking and other illicit activities that are fueling violence along the Southwest Border); arrest fugitives;

# Overview of CBP

interdict illegal export of weapons and ammunition; prevent international terrorist groups and rogue nations from obtaining sensitive and controlled commodities; interdict stolen property, including stolen vehicles; and increase export compliance.

To perform this mission, CBP will conduct outbound “pulse and surge” operations by inspecting people, cargo, and conveyances leaving the United States at all airports, seaports, land border crossings, and at international mail/courier facilities. Outbound operations will be conducted on a random basis or will be intelligence based.

The success of CBP’s outbound mission will rely on its overall layered enforcement strategy. CBP officers will continue to use their experience and depend on currency/firearms canine teams, intelligence, and various inspectional tools to assist in outbound operations. This will include planned upgrades and expansion to the existing License Plate Reader (LPR) program. The LPR program will increase CBP’s capabilities to identify and interdict persons of interest or contraband (i.e., unreported currency, weapons, stolen vehicles) before they depart the United States.

## **Security Filing (10+2)**

The Importer Security Filing and Additional Carrier Requirements rule (Security Filing 10+2) became effective on January 26, 2009, as an Interim Final Rule and is an additional layer to CBP’s security and enforcement strategy for securing U.S.-bound ocean cargo. Security Filing “10+2” joins the 24 hour rule, the C-TPAT program, and CSI in collecting advanced information to improve CBP’s targeting efforts. The advance data provided by the Security Filing “10+2” rule, such as importer entry data, vessel stow plan, and container status messages, will increase the transparency of all parties involved in the international container shipping supply chain and will allow CBP targeting specialists to identify risk factors earlier in the transaction process. Under this new rule the importers are responsible for supplying CBP with ten trade data elements 24 hours prior to lading, while the ocean carriers are required to provide their vessel stow plans no later than 48 hours after departure and their container status messages no later than 24 hours after creation or receipt.

CBP is committed to a 1-year delayed enforcement period from the effective date to allow the trade time to modify their business processes in order to comply with this new rule. Therefore, liquidated damages and any other monetary penalties will not be assessed if those penalty actions are simply to “enforce compliance” with the new regulations. Additionally, CBP will not issue “Do Not Load” messages for reasons related to compliance with the Security Filing “10+2” rule. However, CBP still reserves the right to take any and all actions required to protect the security of the United States. The delayed enforcement period is scheduled to end on January 26, 2010.

## **Electronic System for Travel Authorization**

The Electronic System for Travel Authorization (ESTA) will allow CBP to effectively address the new requirements imposed by the 9/11 Act. Section 711 of the 9/11 Act requires that DHS develop and implement a fully automated version of ESTA to collect information from aliens wishing to travel by air or sea to the United States under the

# Overview of CBP

Visa Waiver Program (VWP). ESTA screens the information provided to determine whether the alien presents a security risk and is eligible to travel to the United States.

In FY 2009, CBP estimates that there were over 17 million entries into the United States from the 35 VWP countries. Determining eligibility for VWP travel in advance of travel will reduce the number of instances in which a traveler who does not meet VWP criteria arrives in the United States and is subsequently denied admission. In such cases, the traveler and the carrier incur additional expense as immediate return to the country of origin is required.

CBP screens travelers against appropriate databases to identify potential threats to the security of the United States. Those travelers determined to be inadmissible as a result of this screening are denied a travel authorization via ESTA and as result are unable to travel to the United States under VWP. Those persons denied via ESTA are given the opportunity to apply for a visa to travel to the United States at the nearest U.S. Embassy or Consulate.

Currently, the ESTA web site appears in English and 20 other languages and has the full capacity to process the total volume of Visa Waiver travelers arriving in the United States. ESTA became mandatory for all VWP travelers in January 2009.

In addition to the ESTA web-based application, CBP automated the paper form I-94W in FY 2009. This allows VWP travelers to apply for a travel authorization via the ESTA web site without having to fill out the paper form I-94W for entry into the United States.

## Model Ports of Entry Program

The Model Ports Program strives to create a more efficient international arrivals process to facilitate and promote travel to the United States while improving security. Program elements include queue management, new directional signage, instructional videos, and local working groups consisting of CBP and travel stakeholders.

The Model Ports pilot was initiated in 2007 at Dulles and Houston International Airports. Using lessons learned and best practices from Houston and Dulles, the Model Ports Program was officially expanded to the remaining 18 model ports, which had the highest number of foreign visitors in August 2008. They include: Atlanta, Boston, Dallas/Ft. Worth, Detroit, Ft. Lauderdale, Honolulu, Las Vegas, Los Angeles, Miami, Newark, Chicago, New York (JFK), Orlando, Philadelphia, Sanford (FL), San Juan, San Francisco, and Seattle. In FY 2008, Congress appropriated \$40 million and 200 additional CBP officers to the Model Ports Program.

CBP developed an informational video that contains practical information about the entry process. The video will be played along with Walt Disney Parks and Resorts' "Welcome: Portraits of America" video to welcome visitors at Model Ports. CBP has also revised its signage to provide international travelers with information and guidance through the entry process. The signage was delivered in October 2008 and the new video was completed in April 2009.

# Overview of CBP

CBP, DHS, DOS, airlines, airports, and the travel industry continue to work together to analyze the entry process and improve customer service. Working groups are being formed at the 20 Model Ports expansion airports to analyze and set goals for wait times and to formalize special queuing areas for diplomats and passengers who require special processing to ensure the most efficient use of facilities and available resources. Additional queuing alternatives will be examined and tested. CBP began collecting wait times from the 20 Model Ports in April 2008. Wait times for all of the Model Ports became available on CBP's Wait Time page <http://apps.cbp.gov/bwt/> on [CBP.gov](http://CBP.gov) in June 2008 and a follow up conference was conducted in March 2009.

## Advances for Improved Internal and External Border Patrol Communications

OBP created the Communications Division in FY 2008 to develop a strategic and directed communications effort across both the internal and external spectrum of audiences and to add significant value and benefit to the overall communication efforts. The Communications Division strives to leverage success by encouraging employee participation and promoting effective leadership communication, both within the agency and outside of the agency. This is accomplished by presenting a clear and focused understanding of OBP's mission, accomplishments, methods, and goals. Effective communication clarifies expectations and provides feedback which promotes teamwork and a performance-driven management. This division continues to develop and now consists of three branches that coordinate their efforts to reach all audiences, internal and external.

- The Information Coordination Branch (ICB) is responsible for maintaining and supporting both internal and external web sites, managing Headquarters correspondence, and providing content and editorial support to CBP HRM web based publications geared to retain applicants' interest during the sometimes protracted hiring process. New initiatives include the study of two electronic correspondence and archiving system test beds currently in the field, with an eye to their adoption Border Patrol wide. ICB's most recent efforts include the creation of the United States Border Patrol (USBP) Magazine in a print medium designed to have a broad audience appeal, as well as a significant increase in both internally and externally directed intranet messaging.
- The Field Communications Branch (FCB) was established as a direct response to an identified need to provide enhanced and coordinated communication between OBP Headquarters in Washington, DC and employees in field locations throughout the United States. FCB established direct communication between Headquarters and field components with the Ask HQ feature located on the CBPnet Secure web site. This feature is essentially an open forum that allows field personnel to raise concerns, receive policy clarification, and ask questions directly to OBP Headquarters about all Border Patrol related matters leading to the identification and resolution of various issues and problems.

The success of the Headquarters level FCB has led to the establishment of sector level FCBs in Tucson, San Diego, and El Paso Sectors. The sector level FCBs increase connectivity between Headquarters and sectors, and deal exclusively with questions and local policies specific to that sector. The FCB has instituted a chain learning concept whereby agents are temporarily detailed to the Headquarters FCB and returned to their duty station while remaining FCB field contacts. This system has facilitated communications at all levels and establishes long-term connectivity between OBP and field organizational components.

- The External Communications Branch (ECB) provides support and assistance regarding OBP external messaging to Congress, other agencies, and the general public, enhancing relations and serving as liaison with



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external stakeholders at all levels. The ECB helps to manage external information flow, and coordinates with other CBP and DHS communication components, detailing experienced agents into positions within these offices, as well as Congressional committee assignments on Capitol Hill. The ECB plans and develops proactive communication plans for external audiences to support and enhance communication efforts for Border Patrol operations and initiatives and responds publicly to critical issues through appropriate channels.

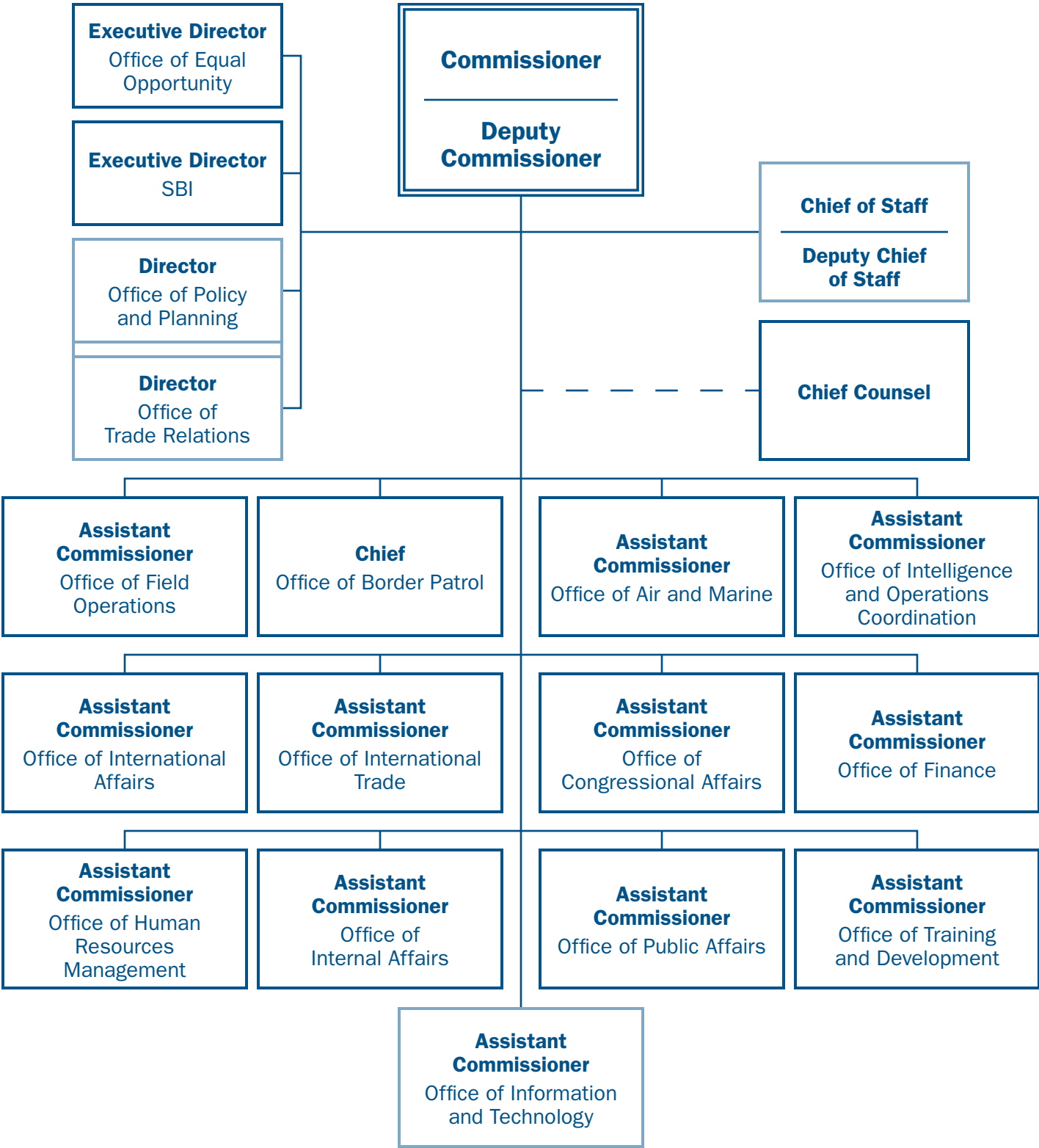
## Human Resources Management

The Office of Human Resources Management (HRM) has developed a five-year strategic plan to effectively meet the challenges of CBP's future state. HRM's plan outlines a proactive course of action for building a sustainable infrastructure to handle the agency's projected growth, providing quality service and products to its customers, and integrating CBP's long-term human resources goals and objectives. HRM's strategic goals are: 1) to become a premier provider of customer-centric Human Resource (HR) advisory services; 2) to promote an environment that values employees; 3) to attract and retain a workforce that is capable of meeting CBP's mission; and 4) to build an infrastructure that provides for dynamic HR services.

## Summary

CBP will continue to integrate state-of-the-art technologies and traditional security infrastructures at U.S. POEs and along our Nation's borders and to work in collaboration and partnership with the trade community and foreign governments to secure the United States from terrorists and terrorist weapons while facilitating world commerce.

## CBP Organization



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## Headquarters

**Office of the Commissioner:** On March 1, 2009, Jayson P. Ahern was named Acting Commissioner for CBP following the retirement of Commissioner W. Ralph Basham, and is responsible for securing, managing, and controlling our Nation's borders. As Acting Commissioner, Mr. Ahern advances CBP's priority mission of preventing terrorists and terrorist weapons from entering the United States while facilitating legitimate trade and travel.

**Office of the Deputy Commissioner:** Jayson P. Ahern was appointed Deputy Commissioner, CBP, in August 2007. Mr. Ahern maintains his role as Deputy Commissioner and is responsible for providing leadership and executive-level direction to CBP's day-to-day operations. This includes oversight of agency initiatives that facilitate the international movement of legitimate, low-risk goods and travelers while promoting effective border security.

**Office of the Chief of Staff (COS):** Serves as the direct liaison to DHS for all agency issues. COS assists the Commissioner in formulating and implementing policies through coordination with other CBP office components, DHS, and other government agencies. COS provides advice and counsel to the Commissioner in defining priorities to accomplish CBP mission and goals.

**Office of Chief Counsel (OCC):** Serves as the chief legal officer of CBP and reports to the General Counsel of DHS. The Chief Counsel serves as the Ethics Officer for the organization and is the principal legal advisor to the Commissioner of CBP and its officers. The OCC provides legal advice to and legal representation of CBP officers in matters relating to the activities and functions of CBP.

**Office of Equal Opportunity (OEO):** Ensures compliance with the civil rights statutes, regulations, and executive orders governing Federal employment without regard to race, color, religion, sex, age, national origin, sexual orientation, physical and mental disability, and/or reprisal. The OEO provides a framework for the formulation, implementation, and evaluation of CBP policies and programs. The OEO also formulates and implements policies and programs in the areas of diversity and cultural awareness, dispute resolution, equal employment opportunity (EEO) complaints processing, and EEO and civil liberties compliance.

**Office of Secure Border Initiative (SBI):** Is accountable for the development and oversight of the SBInet and transportation programs. Established in FY 2007, the SBI office provides CBP-wide coordination, analysis, and integration of SBI-related programs and activities. In addition, SBI serves as an integrator and a facilitator for border security programs and activities, particularly those that impact multiple CBP organizations or require strategic coordination and perspective.

**Office of Policy and Planning (OPP):** Advises the executive staff on policy development and implementation in the broad array of issues addressed by CBP, including national border security policy, immigration enforcement, cargo security and facilitation, agriculture protection, interagency coordination, and legislation. The office further coordinates with individual offices and programs inside and outside the agency to develop specific strategies and planning guidance that support CBP's mission. This includes managing the strategic planning process related

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to the Government Performance and Results Act (GPRA), the Performance Assessment Rating Tool (PART), and the President's Management Agenda (PMA). In addition to the policy and planning activities of the office, OPP serves as the central coordination point for congressional reporting and all matters under review or audit by the Government Accountability Office (GAO) and the DHS Office of the Inspector General (OIG).

**Office of Trade Relations (OTR):** Ensures that accurate, timely, and consistent information is provided to the international trade community on CBP trade policy, as established by the agency. OTR is the primary point of contact for the international trade community (importers, exporters, carriers, customhouse brokers, forwarders, bond providers, trade associations and financial institutions) for the resolution of trade issues. OTR is responsible for promoting compliance with the Small Business Regulatory Enforcement Fairness Act and for managing CBP's engagement with the Commercial Operations Advisory Committee of U.S. Customs and Border Protection (COAC).

## Component Organizations and Field Structure

CBP is organized into 13 separate offices, each of which reports directly to the Commissioner. The mission of each office is described briefly below:

**Office of Field Operations (OFO):** Enforces customs, immigration, and agriculture laws and regulations at U.S. borders and has the primary responsibility for preventing terrorists and terrorist weapons from entering the United States at the POEs. OFO maintains programs at 20 field operation offices; 327 POEs, which include 15 preclearance stations in Canada, the Caribbean, and Ireland; and 58 CSI ports worldwide. A Director of Field Operations heads each field office. Port Directors oversee POEs in their operational areas, where virtually all conveyances, passengers, and goods legally enter and exit the United States. OFO oversees the enforcement of laws and regulations while ensuring the safe and efficient flow of goods and people through the POEs.

**Office of Border Patrol (OBP):** Serves as the CBP law enforcement organization with the primary responsibility for preventing terrorists, weapons of terrorism, illegal aliens, drugs, and those who smuggle them from entering the United States between the POEs. The Border Patrol is organized into 20 sectors along the southwestern, northern, and coastal areas of the United States.

**Office of Air and Marine (OAM):** Protects the American people and Nation's critical infrastructure through the coordinated use of integrated air and marine forces to detect, interdict, and prevent acts of terrorism and the unlawful movement of people, illegal drugs, and other contraband toward or across the borders of the United States. OAM's core competencies include air and marine interdiction, air and marine law enforcement, and air and national border domain security. OAM further supports DHS missions such as response and recovery to natural disasters and terrorism.

**Office of Intelligence and Operations Coordination (OIOC):** Is responsible for the entire intelligence cycle, including planning, collecting, processing, producing, and disseminating of all sources of information and intelligence in

# Overview of CBP

support of CBP's mission. OIOC coordinates national incident response and intelligence driven special operations that require collaboration between CBP offices. OIOC is responsible for directly supporting the Commissioner and senior CBP leadership by obtaining, analyzing, and disseminating intelligence in a timely manner to help CBP carry out its primary mission of detecting, identifying, and preventing terrorists and terrorist weapons from entering the United States. OIOC directs and efficiently manages an integrated intelligence capability that ensures that frontline operators and senior leadership have the value-added intelligence required to drive operations and support policy.

**Office of International Affairs (INA):** Is responsible for coordinating and supporting CBP's foreign initiatives, programs and activities. INA establishes essential partnerships with U.S. Government agencies, foreign administrations, and international organizations. INA supports CBP's defense in-depth strategy by implementing programs and initiatives that promote border enforcement best practices and capacity building. INA also negotiates international agreements and works to strengthen multi- and bi-lateral relationships that facilitate legitimate travel and trade. INA's organizational structure is composed of a Headquarters office in Washington, DC, with attachés, representatives, and advisors in embassies, consulates, and counterpart agencies in 27 nations.

**Office of International Trade (OT):** Provides unified strategic direction for trade policy and program development. CBP OT directs national enforcement responses through effective targeting of goods crossing the border as well as punitive actions taken against companies participating in predatory trade practices, including textile transshipment and intellectual property rights infringement. Through coordination with international partners and other U.S. Government agencies, OT directs CBP risk-based programs designed to detect and prevent the importation of contaminated agricultural products, goods that present health and safety risks, and products requiring protection from unfair trade practices. OT is an agency leader in promoting trade facilitation through partnership programs. OT streamlines the flow of legitimate shipments and fosters corporate self-governance to achieve compliance with trade laws, regulations, and international trade agreements. A risk-based audit program is used to respond to allegations of commercial fraud and to conduct corporate reviews of internal controls to ensure that importers comply with trade laws and regulations. Finally, OT provides the legal tools to promote facilitation and compliance with customs, trade, and border security requirements through the issuance of CBP regulations, binding rulings and decisions, informed compliance publications, and structured training and outreach on international trade laws and CBP regulations.

**Office of Congressional Affairs (OCA):** Advises CBP managers on legislative and congressional matters and assists members of Congress and their staff in understanding current and proposed CBP programs.

**Office of Finance (OF) and Chief Financial Officer (CFO):** Oversees all financial operations, procurement, acquisition, asset management, and budget activities within CBP. OF is responsible for administering \$13.2 billion that is budgeted annually for law enforcement and trade operations and processing collections of \$29 billion in custodial and entity revenue annually. This office is responsible for administering the broad range of financial management activities delineated under the CFO Act of 1990, including accounting, budgeting, procurement, asset management, financial systems, and financial management.

# Overview of CBP

**Office of Human Resources Management (HRM):** Provides human resources support by filling positions, offering employee services and benefits, processing personnel actions, improving business processes, and facilitating workforce effectiveness. HRM promotes and enables mission accomplishment through human capital planning and utilization, strategic leadership, labor–management relations, training, and employee safety.

**Office of Information and Technology (OIT):** Provides CBP with information, services and technology solutions to secure the border, prevent the entry of terrorists or terrorist weapons, and facilitate legitimate trade and travel. In addition, OIT operates a worldwide, round-the-clock secure, stable, and high-performance Information Technology (IT) infrastructure and supports tactical communications, scientific solutions, and forensic services. OIT implements and supports CBP’s IT, automation, and technology strategies. OIT personnel manage all computers and related resources, including all operational aspects of the Computer Security Program. OIT establishes requirements for computer interfaces between CBP and various trade groups and government agencies, and manages matters related to automated import processing and systems development.

**Office of Internal Affairs (IA):** Serves as the designated Office of Security for CBP and manages a wide range of investigative and security functions and programs, including applicant and employee background investigations and clearances; employee integrity and misconduct investigations; integrity awareness; corruption detection through research and analysis of all available data; operational field testing; credibility assessment, including polygraph examination; physical, informational, industrial, internal, and operational security; and management inspections. IA’s mission is clear and critically important—to promote the integrity and security of the CBP workforce.

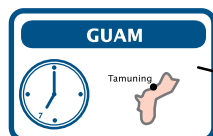
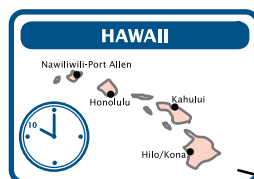
**Office of Public Affairs (OPA):** Communicates CBP’s mission and operations to the agency’s chief stakeholders, which includes the American public, foreign nationals who conduct business in the United States, international trade entities, and travelers who cross U.S. borders. Tools used in the national and international public communication process include media outreach and public information campaigns conducted via media events, video, photography, and informational brochures. In addition, CBP maintains a public web site ([www.cbp.gov](http://www.cbp.gov)) and a national customer service call center to address public questions and complaints. OPA also keeps the CBP workforce informed through the CBPnet Intranet site, the weekly e-mailed news compilation “Frontline News,” and mass e-mails. A bimonthly newsletter, “CBP Today,” is distributed to CBP personnel and other stakeholders nationwide.

**Office of Training and Development (OTD):** Is responsible for the centralized leadership and direction of all CBP training programs for the entire workforce. OTD ensures that all training supports the CBP mission and strategic goals, and that the workforce is prepared to meet the challenges faced in the performance of mission critical operations by establishing CBP training standards and policies, leading the development, delivery and evaluation of training, and procuring the necessary tools.

# Overview of CBP



## U.S. Customs and Border Protection

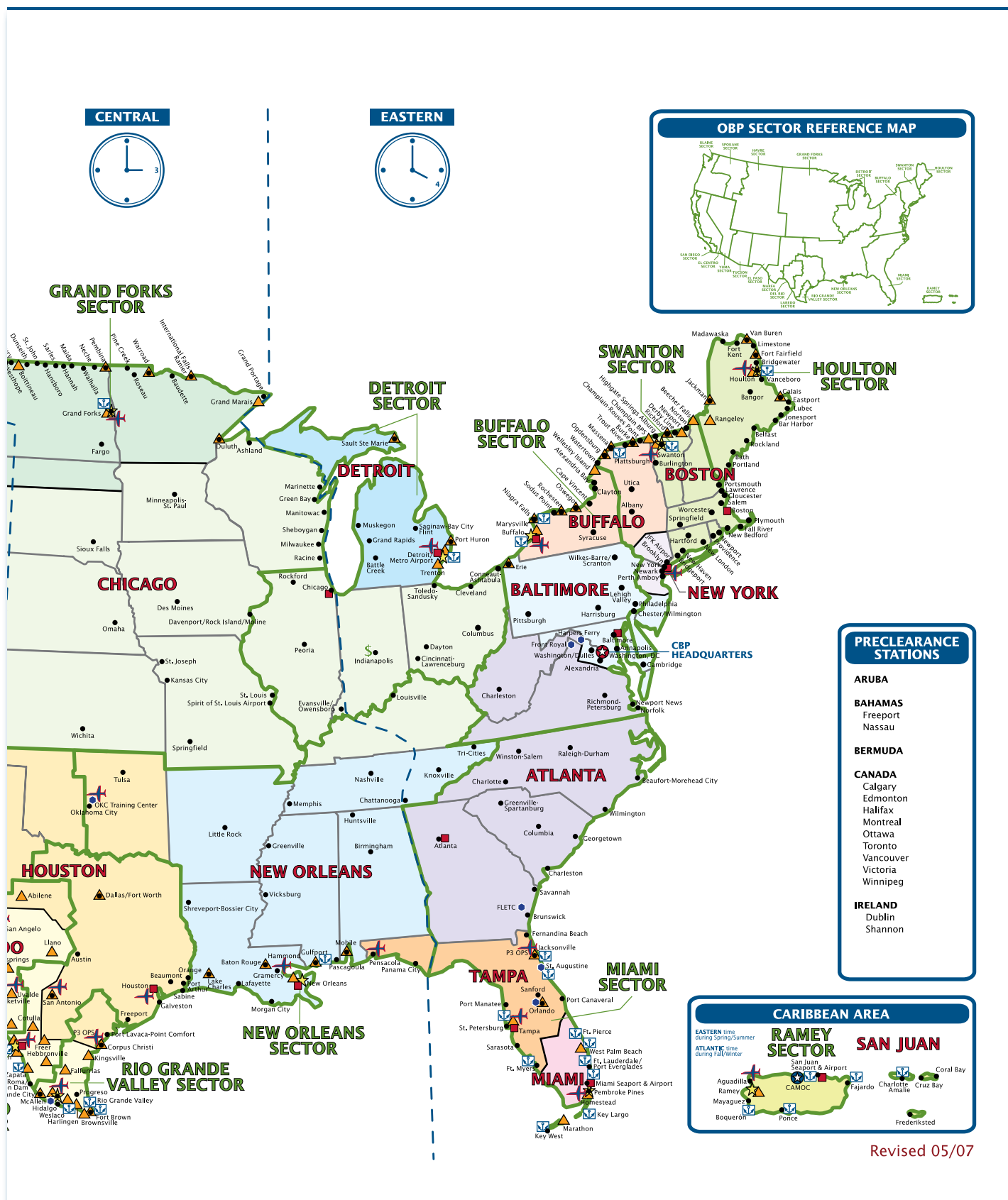


## LEGEND

- |   |                                      |   |   |   |                                      |
|---|--------------------------------------|---|---|---|--------------------------------------|
|  | <b>CBP Headquarters</b>              |  | <b>CBP Air &amp; Marine Operations Center</b> |  | <b>OBP Sector Headquarters</b>       |
|  | <b>Field Office</b>                  |  | <b>CBP Air Location</b>                       |  | <b>Border Patrol Station</b>         |
|  | <b>Port of Entry</b>                 |  | <b>CBP Marine Location</b>                    |  | <b>Border Patrol Sector Boundary</b> |
|  | <b>Training Facility</b>             |   |   |   |                                      |
|  | <b>National Finance Center (NFC)</b> |  | <b>State Boundaries</b>                       |  | <b>Time Zones</b>                    |



# Overview of CBP



# Performance Goals and Results

In FY 2009, CBP issued its updated Strategic Plan for FY 2009–2014. The plan serves as the foundation of an overall framework that links CBP strategic planning to the resource allocation process. This updated plan is designed to guide the strategic planning efforts of the various offices and programs within CBP; enable the development of effective strategies and establish key priorities needed to achieve our mission and improve operational performance. Agency progress is described in this PAR.

CBP's Strategic Management Framework (SMF) was developed to facilitate the development of performance plans within CBP and improve the integration of planning, performance, and resource management CBP-wide. The SMF is a comprehensive approach designed to ensure that performance plans and associated strategies provide clear strategic direction, transparent accountability, and promote a results-oriented culture throughout the organization.

The SMF consists of four parts: the CBP Strategic Plan (mission, vision, goals, and objectives); cross-cutting strategy documents; component level implementation plans; and a quarterly review process to monitor performance. The illustration below outlines the SMF and its associated process and documents.



# Performance Goals and Results

## Performance Management

CBP uses performance measures to determine if desired results are achieved, which indicates what the agency is accomplishing. These measures provide decision-makers with the necessary information on where they should place resources and strategic efforts to ensure program effectiveness. Performance measures also keep CBP focused on its key goals and cross-cutting enablers, help to justify budget increases, and provide focus for planning efforts. Additionally, performance measures establish results in reporting to the OMB and DHS, as well as responding to GAO and DHS OIG recommendations.

In the past, CBP performance measures have evenly aligned to a program and strategic goal. With the creation of the FY 2009–2014 CBP Strategic Plan, the agency identified several strategic areas that would benefit from new outcome-based performance measures. CBP is developing a plan to establish these new outcome measures for its strategic goals and cross-cutting enablers. CBP will demonstrate program effectiveness in achieving our long-term performance goals through the continuous improvement of performance measures.

The strategic goals and objectives in the FY 2009–2014 CBP Strategic Plan provide a roadmap of activities for accomplishing the agency's important mission. CBP also recognizes that certain cross-cutting enablers affect CBP's ability to accomplish its mission and ultimately achieve its goals. Focusing on the cross-cutting enablers that cut across CBP's goals enables CBP to better outline strategies to these factors into action plans.

The three critical identified enablers are:

- Leverage intelligence and information sharing to maximize the effectiveness of limited resources. CBP must leverage its frontline officers and agents to gain information that can be used to strengthen the Nation's security and to act upon intelligence that will help CBP carry out its critical border security mission.
- Maximize the power of partnerships. Partnerships have contributed greatly to CBP's progress in developing and implementing the various strategies that have improved border security and facilitation of global trade and travel. CBP's success relies upon the creation of enduring partnerships and maintaining open lines of communication domestically and internationally. Identifying, establishing, and enhancing or expanding beneficial partnerships will allow CBP to enhance the enforcement of and compliance with agriculture, immigration and other federally enforced laws and regulations.
- Promote achievement and a results-driven culture through an effective management infrastructure that fosters the highest standards of integrity. CBP fosters an environment designed to leverage state-of-the-art technologies, innovative strategies, and worldwide partnerships to protect America's communities and defend its borders. Through the development and implementation of the SMF that integrates investment management, resource management and program management, CBP will achieve a maximum return on investment on its top mission-focused goals.

CBP's cross-cutting enablers (improved intelligence and information sharing, expansion of partnerships, and management operations and organization effectiveness) are critical to CBP's success in achieving our mission and are primary considerations in developing strategies and action plans to implement the CBP Strategic Plan.

# Performance Goals and Results

CBP is dedicated to continuously refining and improving its performance measures. The goal is to ensure that the data we report internally and externally are useful to senior executives tasked with making tough programming and funding decisions. As CBP begins to implement the FY 2009–2014 CBP Strategic Plan, programs will evaluate their performance measures and align them to the new strategic goals and objectives. Wherever gaps exist, new measures will be developed. CBP’s performance measures’ reliability and validity will be assessed each year through structured reviews, external feedback, and independent audits.

## FY 2009 Performance by Strategic Goal

This section presents a discussion of highlighted FY 2009 performance objectives and related key performance measures for each of CBP’s strategic goals. Additional performance measures and results can be found in the “Performance” section under “Performance Summary,” beginning on page 70.

### **Strategic Goal 1:** Secure Our Nation’s Borders to Protect America from the Entry of Dangerous People and Goods and Prevent Unlawful Trade and Travel.



*CBP Officer checks a passenger's documents.*

As a frontline border security agency, CBP has a multifaceted and complex mission of protecting the Nation against a multitude of cross-border violations. All CBP efforts to secure the border, including our mission of enforcing the immigration, customs, trade, agriculture, and other laws of the United States contribute to the mission of thwarting terrorism.

**Performance Objective**—Establish and maintain effective control of air, land, and maritime borders through the use of the appropriate mix of infrastructure, technology, and personnel.

CBP will continue its efforts to expand and maintain effective control of all air, land, and maritime borders at and between our POEs through a layered, defense-in-depth approach. Providing security along our northern, southern, and coastal borders requires effective coordination and integration of all of CBP’s operational components, along with the guidance and assistance of essential CBP mission support personnel.

# Performance Goals and Results

<b>Performance Measure</b> —Border miles under effective control (including certain coastal sectors).						
Description	This measure depicts the number of border miles under effective control, a condition met when there is reasonable assurance that illegal entries are detected, identified, and classified, and the Border Patrol has the ability to respond and bring these incidents to a satisfactory law enforcement resolution. Our Nation’s southwest, northern, and coastal borders extend 8,607 miles through deserts, prairies, forests, mountains, open spaces, waterways, small town settings, and urban centers. This vast area between the legal ports of entry is controlled by deploying the appropriate mix of personnel, technology, and tactical infrastructure to the disparate border environments.					
KEY HIGHLIGHTS						
Fiscal Year	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Target	FY 2009 Results
Target/Actual Indicator	288 Miles	449 Miles	599 Miles	757 Miles	815 Miles	939 Miles
Explanation of FY 2009 Results	<b>Target Met</b> —The Border Patrol gained an additional 182 miles of border under effective control since FY 2008. This increase can be attributed to a combination of different factors. In many areas, tactical infrastructure that had been under construction was completed, closing off some of the high-risk areas exploited by the criminal element. This first line of defense allowed sectors to re-deploy agents and mobile SBInet technology in order to more efficiently patrol the border. The Southwest Border also received approximately 1,960 new agents, further enhancing the sectors’ ability to deploy personnel efficiently and responsibly. The right mix of personnel, technology and infrastructure is critical to gaining effective control of our Nation’s borders.					
Data Source	Operational Requirements Based Budget Program (ORBBP) database.					

**Performance Objective**—Deploy and employ the most effective inspection and scanning technology available at designated land border ports, airports, seaports, permanent Border Patrol traffic checkpoints, and international areas in which CBP operates to detect and prevent the entry of hazardous materials, goods, and instruments of terror into the United States.

CBP uses a layered, defense-in-depth approach that includes multiple technology combinations. CBP employs NII technology to detect and interdict weapons, narcotics, currency, and other contraband secreted in large containers and commercial shipments. Technologies currently deployed include large-scale X-ray and gamma ray imaging systems, radiation detection technology, and a variety of portable and hand-held technologies.

# Performance Goals and Results

**Performance Measure**—Percent of truck and rail containers screened for contraband and concealed people using imaging or physical inspection.

**Description** The percentage of truck and rail containers screened for contraband and concealed people using NII technology and physical inspection. Truck and rail containers scanned are those that are identified as high-risk through the Automated Targeting System (ATS) as well as those selected for random review. NII technology consists of X-ray imaging and electromagnetic imaging equipment that is very effective at inspecting trucks, containers, and packages for shapes, density, and hidden cargo to identify weapons, narcotics, smuggled humans, and concealed cargo. NII equipment is not effective at identifying radioactive or weapons-grade materials which are identified using radiation portal monitors. These two technologies work together to fully screen cargo.

## KEY HIGHLIGHTS

Fiscal Year	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Target	FY 2009 Results
Target/Actual Indicator	28.90%	32.80%	40.00%	35.80%	35.00%	39.10%
Explanation of FY 2009 Results	<b>Target Met</b> —The percentage scanned is significantly higher than the standard for FY 2009 due in part to the significant decline in the overall volume of containers arriving at U.S. land border ports. The decline in volume is a result of the economic downturn experienced over the past year.					
Data Source	Operations Management Reports (OMR) Data Warehouse.					

**Performance Measure**—Percent of sea containers screened for contraband and concealed people using imaging or physical inspection.

**Description** The measure shows progress towards increasing security by measuring the percent of sea containers arriving at seaports that were screened for contraband and concealed people using NII technology and physical inspection. Sea containers that are scanned are those that are identified as high-risk through ATS manifest reviews as well as those selected for random review. NII technology consists of x-ray imaging and electromagnetic imaging equipment that is very effective at inspecting trucks, containers, and packages for shapes, density, and hidden cargo. It is very effective at identifying weapons, narcotics, smuggled humans, and concealed cargo. NII equipment is not effective at identifying radioactive or weapons-grade materials which are identified using radiation portal monitors. These two technologies work together to fully screen cargo.

## KEY HIGHLIGHTS

Fiscal Year	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Target	FY 2009 Results
Target/Actual Indicator	5.60%	5.25%	4.00%	3.60%	3.20%	4.60%
Explanation of FY 2009 Results	<b>Target Met</b> —The percentage scanned is significantly higher than the standard for FY 2009 due in part to the significant decline in the overall volume of containers arriving at U.S. land border ports. The decline in volume is a result of the economic downturn experienced over the past year.					
Data Source	Operations Management Reports (OMR) Data Warehouse.					



# Performance Goals and Results

**Performance Objective**—Secure the use and availability of the best quality and quantity of biometric and biographical information at designated land border ports, airports, seaports, Border Patrol Stations, permanent checkpoints, and international areas in which CBP operates to detect and prevent the entry of dangerous people into the United States.

CBP officers use biometric identifiers, such as fingerprints (using an inkless fingerprint scanner) and photographs (using a digital camera), to verify the identity of foreign nationals wishing to enter the United States. The US-VISIT program continues to deploy and support biometric systems by providing biometric information that helps thwart identity fraud by providing unalterable, unassailable identity information and aiding in determining if someone has remained in the country longer than authorized. Border Patrol Stations are equipped to collect and electronically transmit biometric information to the automated databases such as the Automated Biometric Identification System (IDENT) and the Integrated Automated Fingerprint Identification System (IAFIS). These systems collect and maintain biometric information and perform searches against other law enforcement databases to identify criminals and allows CBP to quickly determine whether a person who is apprehended is the subject of a currently posted warrant or has a prior criminal record.

<i>Performance Measure</i> —Percent of individuals screened against law enforcement databases for entry into the United States.						
Description	This measure identifies the percent of individuals arriving at the POEs who have their names and other identifying information checked against electronic law enforcement databases. Identification documents such as passports, visas, border crossing cards, military identification, etc., are reviewed for authenticity and the individual’s name and other identifying information are checked against electronic law enforcement databases available through The Enforcement Communication System (TECS) during the entry process at all POEs, including airports, land border ports, and seaports. More thorough screening increases the likelihood that high-risk travelers that might cause harm are not allowed entry into the United States.					
KEY HIGHLIGHTS						
Fiscal Year	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Target	FY 2009 Results
Target/Actual Indicator	N/A	N/A	N/A	73.50%	80.00%	83.40%
Explanation of FY 2009 Results	<b>Target Met</b> —CBP has worked with the Department of State (DOS) to increase the number of Radio Frequency Identification (RFID) enabled passport cards and Border Crossing Cards. It has also continued to deploy RFID technology to the land border ports of entry to increase the enforcement query rate of all travelers.					
Data Source	The Enforcement Communication System (TECS),					



# Performance Goals and Results

## **Strategic Goal 2:** Ensure the Efficient Flow of Legitimate Trade and Travel Across U.S. Borders.



*CBP Border Patrol agent utilizes an automated fingerprint recognition system.*

In order to meet the twin goals of security and facilitation, CBP will develop and implement programs that expedite the processing of people and goods at land border ports, airports, and seaports, while at the same time securing the global trade environment and strengthening supply chain security. CBP will focus its resources on identifying and responding to high-risk travelers and conveyances. CBP employs a risk-based, layered enforcement approach through the use of accurate advance information; the most advanced inspection, screening, and scanning technology available; modernized systems for cargo processing; and international and trade compliance partnership programs. Modern trad-

ing practices make it essential for CBP to provide risk-based, predictable, transparent, and efficient procedures for the clearance of goods, while simultaneously addressing increasingly complex trade compliance requirements and evolving security challenges.

**Performance Objective**—Expedite the processing of people, products, and conveyances at land border ports, airports, and seaports, through the use of accurate advance information and modernized systems for cargo processing.

CBP's ability to expedite the processing of people, products, and conveyances is dependant on its ability to identify high-risk travelers and goods for inspection. High-risk targeting allows law-abiding travelers and commerce to move without unnecessary delay. CBP applies its targeting methods against data to determine which passengers or shipments need to be segregated for closer inspections. CBP uses ATS and associated databases to provide CBP officers (including those stationed overseas) with advance notice of travelers and goods arriving at U.S. POEs, allowing them to cross-check the passenger and cargo manifests against databases such as TECS and the National Crime Information Center. CBP's Automated Commercial Environment (ACE) system has modernized U.S. trade processing by consolidating seven cargo processing systems into a single portal. ACE provides CBP and other component personnel with better information before a shipment reaches U.S. borders so that cargo can be expedited based on compliance with U.S. laws.

# Performance Goals and Results

Performance Measure—Air passengers compliant with laws, rules, and regulations (%).						
Description	This measure is the compliance rate of international air passengers with all of the laws, rules, and regulations that CBP enforces at the Ports of Entry, with the exception of agriculture laws and regulations. It is also referred to as the Air Compex rate, and includes all customs and immigration violations, both category I (major) and category II (relatively minor). Category II violations far out-number category I violations and include all noncompliance with established customs and immigration laws, rules, and regulations, as well as violation of all rules and regulations of other agencies that CBP is tasked by Congress with enforcing. This includes inadmissible alien travelers (for any reason) as well as discovery of prohibited items for other agencies, such as Food and Drug Administration (FDA) pharmaceutical regulations, confiscation of alcoholic beverages on behalf of state authorities, Consumer Product Safety Commission (CPSC) product safety alerts, and trade violations such as amended declarations resulting in additional revenue or CBP action.					
KEY HIGHLIGHTS						
Fiscal Year	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Target	FY 2009 Results
Target/Actual Indicator	99.00%	98.70%	98.70%	99.50%	99.20%	98.10%
Explanation of FY 2009 Results	<b>Target Not Met</b> —The process used to compile Compliance Examination (COMPEX) data was substantially revised during FY 2009, following GAO audit recommendations to expand COMPEX to fully incorporate all qualifying immigration and agricultural violations. This resulted in an increase in the total number of minor violations included. In addition, the implementation of WHTI at major airports, completed during 2008, resulted in more thorough inspections and document checks, which may have also contributed to an increase in minor violations. These increases in observed minor violations resulted in an overall reduction in the computed air passenger compliance rate.					
Recommended Action	CBP will continue to enhance information provided to travelers in advance of arrival, through pre-clearance programs, trusted traveler programs, and traveler education efforts such as the “Know Before You Go” web page on the CBP web site <a href="http://www.cbp.gov/xp/cgov/travel/vacation/kbyg/">www.cbp.gov/xp/cgov/travel/vacation/kbyg/</a> and signage at airports in an effort to better inform travelers and familiarize them with CBP requirements. This will help reduce the number of minor violations encountered and improve overall passenger compliance.					
Data Source	The Enforcement Communication System (TECS), Categories I and II violations.					

# Performance Goals and Results

**Performance Measure**—Compliance rate for C-TPAT members with established C-TPAT security guidelines.

**Description** This measure provides a summary of the overall compliance rate achieved for all validations performed during the Fiscal Year. After acceptance into the C-TPAT program, all C-TPAT members must undergo a periodic validation in which CBP examiners visit company locations and verify compliance with an industry-specific set of CBP security standards and required security practices. These validations are prepared using a weighted scoring system that is used to develop an overall compliance rate for each company. This measure provides a summary of the overall Compliance Rate achieved for all validations performed during the Fiscal Year.

## KEY HIGHLIGHTS

Fiscal Year	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Target	FY 2009 Results
Target/Actual Indicator	97.00%	98.00%	98.00%	99.90%	99.00%	97.50%
Explanation of FY 2009 Results	<b>Target Not Met</b> —The C-TPAT compliance rate for members with established C-TPAT security criteria decreased during FY 2009 as the program strengthened its validation process, which increased the number of companies suspended or removed following a validation. New suspension and removal guidelines following a validation were implemented and management oversight was increased and applied consistently at all levels.					
Recommended Action	Program validation process improvements implemented in FY 2009 will have an on-going impact on C-TPAT operations. C-TPAT will continue to apply the strengthened security criteria and suspension/removal rules and identify additional improvements based on observed results.					
Data Source	C-TPAT Validation Reports.					

# Management Assurances

## Overview

To assist with DHS' compliance with the provisions of the Federal Managers' Financial Integrity Act of 1982 (FMFIA); the DHS Financial Accountability Act of 2004; the Reports Consolidation Act of 2000; the Federal Financial Management Improvement Act of 1996 (FFMIA); the Federal Information Security Management Act of 2002 (FISMA); and the Office of Management and Budget (OMB) Circular A-123, "Management's Responsibility for Internal Control," revised December 2004, the Commissioner of CBP must provide annual assurance statements to DHS regarding CBP's management and financial system controls, internal controls over financial reporting, and performance data reliability regarding activity that is significant at the DHS Consolidated level. Any material weaknesses or deficiencies are reported in the statements. Information for these statements is derived from GAO and DHS OIG reviews, independent audits, and self-assessments provided by CBP management.

## Federal Managers' Financial Integrity Act

In accordance with FMFIA and OMB Circular A-123, CBP has evaluated its management controls and financial management systems for the FY ending September 30, 2009. Through its annual self-assessment process and GAO and OIG reviews for FY 2009, we are reporting 5 material weaknesses and 2 instances of nonconformance. Because of corrective actions implemented by CBP, the material weaknesses in Laptop Computer Security and the Secure Border Initiative Program Executive Office – Implementation of Management Controls that were reported in previous years were reduced to significant deficiencies for FY 2009 reporting.

### **Custodial Revenue and Drawback Controls**

Drawback involves the reimbursement of duties paid by an importer on materials or merchandise imported into the United States and subsequently exported. In 1993, deficiencies were reported in the controls to prevent excessive drawback claims. CBP's Automated Commercial System (ACS) has inherent limitations in detecting and preventing excessive drawback claims; therefore, CBP relies on a risk-based approach to review drawback claims. The strengthening of drawback controls is dependent on legislation to simplify the drawback process and to revise document retention requirements for the trade. CBP has recommended changes to the record-keeping requirements; however, support from the Trade community is crucial to proposing a statutory change. In addition, weaknesses have been noted and are being addressed in the monitoring of Foreign Trade Zones and Customs Bonded Warehouses, as well as the tracking of In-Bond cargo.

### **Property, Plant, and Equipment**

CBP did not have adequate policies and procedures in place to properly account for new equipment purchases and transfers, construction, or to properly identify and allocate indirect costs to construction projects, or to ensure that depreciation is properly computed and recorded in a timely manner. In addition, CBP found a need to improve

# Management Assurances

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agency-wide communication to ensure that significant financial related events outside the Office of Finance are timely communicated for proper and timely accounting and reporting consideration.

## **Financial Reporting**

CBP did not conduct a thorough review of the year-end financial statements which initially resulted in misstatements to the year-end financial statements. CBP Management will update their policies and procedures for assembling the financial statements to include standard reviews, approvals, and edit checks.

## **Business Continuity**

For FY 2009, CBP reported inadequate resources for business continuity testing of Chief Financial Officer designated financial systems. Continuity plans are tested to ensure that, in the event of a true emergency, resources are in place and individuals are trained to quickly and effectively continue business processes at an alternate location in the event that the CBP Data Center is made unavailable. However, during a scheduled test, CBP found that it was not possible to bring all systems online because hardware was not available at the recovery facility to fully and properly perform the continuity testing. CBP is currently studying options for correcting this weakness.

## **Information Security (previously US VISIT Technical Security Issues)**

In 2007, GAO performed a Technical Security Assessment of US VISIT and determined that CBP needed to immediately address significant security weaknesses in systems supporting core CBP systems. As of 2009, CBP has implemented 61 of 82 audit recommendations; however, significant upgrades to the CBP infrastructure still remain. CBP anticipates corrective actions to be completed by December 31, 2011, pending available funding.

## **Financial Systems Security (previously Information Technology General and Application Controls)**

DHS requires each Component's information technology (IT) systems identified as CFO-Designated Systems to comply with the 27 key internal controls detailed in the DHS Management Directive 4300-1, DHS Sensitive Systems Policy Directive 4300A, DHS 4300A Sensitive Systems Handbook (SSH), and its Attachment R, Compliance Framework for CFO Designated Financial Systems. During the FY 2009 A-123 assessment of Information Technology General Controls, it was noted that 3 of 7 CBP CFO-Designated Financial Systems have IT internal control weaknesses with user account management and noted weaknesses with IT security logging and monitoring, system software, and segregation of duties, thereby limiting management's assurance on the internal controls over these systems.

# Management Assurances

## Core Financial Systems

This material weakness was first reported in 1993 when it was noted that CBP's core financial systems were not integrated and did not provide certain financial information for managing operations. The implementation of Systems, Applications, and Products (SAP) Release 3 in 2004 addressed a number of the issues under this weakness. The remaining open issue relates to the accounts receivable functionality that will be provided by the Automated Commercial Environment (ACE) once it becomes the system of record for trade revenue activity and reporting. In addition, the Computerized Aircraft Reporting and Material Control (CARMAC) System and Customs Automated Maintenance and Inventory Tracking System (CAMITS) are not integrated with SAP at the transaction level. Reconciliations are performed to ensure accurate reporting.

## DHS Financial Accountability Act

The DHS Financial Accountability Act requires an assertion of internal controls over financial reporting. For FY 2009, the scope of CBP's assessment of internal controls over financial reporting included performing limited tests of operational effectiveness throughout FY 2009 and tests of design as of September 30, 2009, over the following processes that generated significant balance sheet and statement of custodial activity from a DHS Consolidated level:

### Tests of Operational Effectiveness

- Entity Level Controls
- Fund Balance with Treasury
- Financial Reporting
- Property Management
- Revenue Management
- Tests of Design
- Financial Systems Security

Based on the scope of this assessment, CBP provides reasonable assurance that internal controls over financial reporting were designed and/or operating effectively, with the exception of the aggregated issues of the material weaknesses, Custodial Revenue and Drawback Controls, Property, Plant and Equipment and Financial Reporting, as previously discussed. CBP management believes that sufficient compensating controls exist to provide assurance on the related financial statements and will continue to test and refine these controls.

# Management Assurances

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## Federal Financial Management Improvement Act

FFMIA instructs agencies to maintain an integrated financial management system that complies with Federal system requirements, Federal Accounting Standards Advisory Board standards, and the U.S. Standard General Ledger at the transaction level. Although CBP has made significant improvements toward compliance with the implementation of SAP financial software, it cannot claim full compliance because of the deficiencies previously discussed.

## Federal Information Security Management Act

FISMA requires agencies to conduct an annual self-assessment review of their IT security programs and to develop and implement corrective actions for identified security weaknesses and vulnerabilities. CBP has completed a comprehensive self-assessment for FY 2009 and can state with reasonable assurance that the IT security controls are in compliance with FISMA, with the exception of the material weakness previously discussed.



# Systems and Controls

## Overview

**Data Integrity:** CBP is dedicated to providing clear, concise, relevant, and reliable data for managerial decision making and program management. CBP strives to ensure that the data are both quantifiable and verifiable and provided in a timely manner. In place are internal management controls, including ongoing data reviews, annual self-inspections, audit trails, restricted access to sensitive data, and separation of duties, which are designed to safeguard the integrity and quality of CBP's data resources.

**Data Systems and Controls:** Performance data for the planned performance measures are generated by automated management information and workload measurement systems and reports as a byproduct of day-to-day operations. All levels of management routinely monitor the data systems and controls. CBP management has reviewed the performance measurement data for FY 2009 and has determined, with reasonable assurance, that the data is complete, accurate and reliable.

**Audit of the FY 2009 CBP Consolidated Financial Statements:** To assist the Department in complying with the DHS Financial Accountability Act of 2002, the DHS OIG engaged independent auditors, KPMG LLP, to audit CBP's consolidated financial statements (Consolidated Balance Sheets, Consolidated Statements of Net Cost, Consolidated Statements of Changes in Net Position, Combined Statements of Budgetary Resources, and Consolidated Statements of Custodial Activity), hereinafter referred to as the "financial statements." The objective of the audit was to determine whether CBP's financial statements are fairly presented in accordance with Generally Accepted Accounting Principles (GAAP) in the United States. The Independent Auditor's Report can be found on page 142.

## Self-Inspection Program

The Self-Inspection Program (SIP), administered by the Office of Internal Affairs, Management Inspections Division (MID), is one of a number of processes through which CBP monitors compliance with agency policies and procedures, the accomplishment of operational objectives, and the security of funds, property, and other agency resources. SIP complements other monitoring processes that include ongoing management oversight, systematic monitoring, quality assurance reviews, periodic audits and inventories, and other verification activities. SIP also helps CBP meet federal internal controls requirements established by the Federal Managers' Financial Integrity Act, OMB Circular A-123, and the Department of Homeland Security Financial Accountability Act.

SIP helps keep CBP managers and supervisors informed and current on CBP policies, procedures, and other requirements, including those they may not have been aware of. A fundamental feature of SIP is the requirement that managers reporting deficiencies in their operations develop and implement a corrective action(s) that will effectively resolve each deficient condition. The responsible manager must identify the basis (cause) for the deficient condition, the corrective action taken or planned to address the deficient condition, and the date the action was completed or its target completion date. SIP provides a mechanism for managers to identify and correct problems at the local level and to obtain more control over activities that they oversee. Self-inspections assist managers in

# Systems and Controls

identifying areas of non-compliance and potential vulnerability in their operations that they likely would not have otherwise discovered; program requirements help ensure that appropriate corrective actions are promptly implemented. SIP assists CBP managers and supervisors in maintaining accountability for their areas of responsibility as it requires them to “back-up” the results of their self-inspection with supporting documentation for the next level of management, which is responsible for certifying the results as correct.

As self-inspection results are reviewed and certified as accurate, CBP managers gain confidence that program internal controls are being properly implemented and problems are being identified and corrected. Results of the assessments are entered into the Self-Inspection Reporting System (SIRS). On a national level, the analysis of self-inspection results allows executive managers and national program managers to: gauge the level of compliance with critical program controls; examine the issues or underlying cause of reported instances of non-compliance; and identify programmatic issues that require national attention.

For the current reporting cycle, a total of 2,220 managers and supervisors in 657 CBP headquarters and field offices performed self-assessment activities that included performing, certifying, and/or approving the results of office self-inspections. CBP managers and supervisors completed 13,305 self-inspection worksheets and answered a total of 86,089 worksheet questions.

## Management Inspections Program

As part of its oversight role to promote the integrity, effectiveness, and efficiency of CBP programs and operations, the Office of Internal Affairs, Management Inspections Division (MID), performs management inspections that compliment operational monitoring activities performed by CBP component offices. As part of an integrated inspections program, MID performs office inspections, program evaluations, contract and other financial reviews, quality assurance and procedural deficiency reviews, follow-up reviews of audit recommendations made by the Government Accountability Office and the Department of Homeland Security Office of the Inspector General, and other analytical assessments of operational or management issues.

In completing inspections, MID provides CBP executive managers with timely, objective and reliable information and analysis concerning the administration and implementation of CBP programs, policies and procedures. When appropriate, MID will provide recommendations for changes in organizational policies, procedures, and practices intended to: resolve identified programmatic, process, or systemic weaknesses; address operational vulnerabilities; strengthen systems of internal control; and/or address impediments to the achievement of CBP goals and objectives.

The management inspections initiated by MID reflect a proactive approach to identifying areas of potential vulnerability or conditions that could hinder the accomplishment of CBP operational goals and objectives. During FY 2009, MID initiated 27 management inspections; issued 16 management inspection reports; and presented

# Systems and Controls

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CBP executive managers with 59 recommendations to address operational, financial or administrative deficiencies identified during inspection activity.

# Financial Management

## Overview

CBP strives to be a leader in financial management by providing high-quality, cost-efficient services through customer involvement and modern, integrated financial systems. Its goal is to continuously develop and implement more effective and efficient methods to obtain, manage, and deliver the financial resources, capital assets, and financial services required to meet or exceed the needs of customers and stakeholders. Because CBP is also a revenue-collection agency, it is imperative that it accurately identify amounts owed to CBP and efficiently and effectively collect, report, and account for revenue.

Providing top-quality financial management services includes translating workloads and requirements into budget requests for needed resources; allocating and distributing funds after resources are made available; acquiring and distributing goods and services used to accomplish the CBP mission; managing and paying for those goods and services; and reporting on the costs and use of personnel, goods, and services.

For FY 2009, SAP financial software continues to be used by CBP. SAP is a modular, PC-based, integrated financial management and reporting system that provides full materials management, budgeting, and general and subsidiary ledger capabilities. The impact of SAP is far-reaching, as it has put into place new automated, integrated processes for core finance and accounting, budget execution, and reporting.

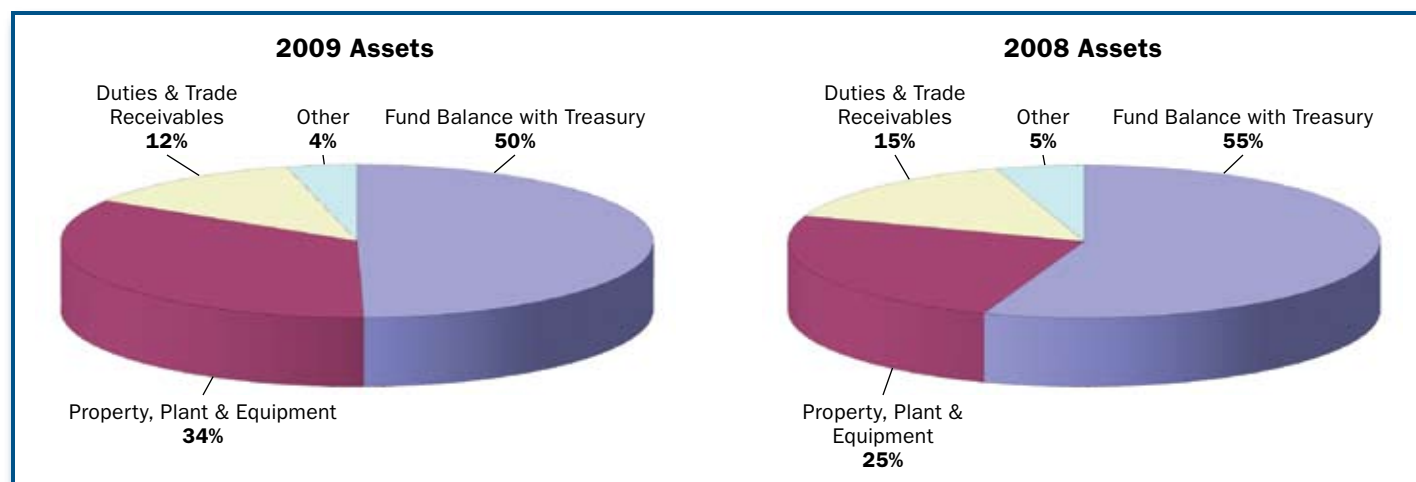
## Overview of the Financial Statements

The financial statements and footnotes appear in the “Financial Section” of this report on pages 88 through 139. The financial statements have been audited by the independent auditor engaged by the DHS OIG, KPMG LLP, who determined that the financial statements are fairly presented in accordance with GAAP.

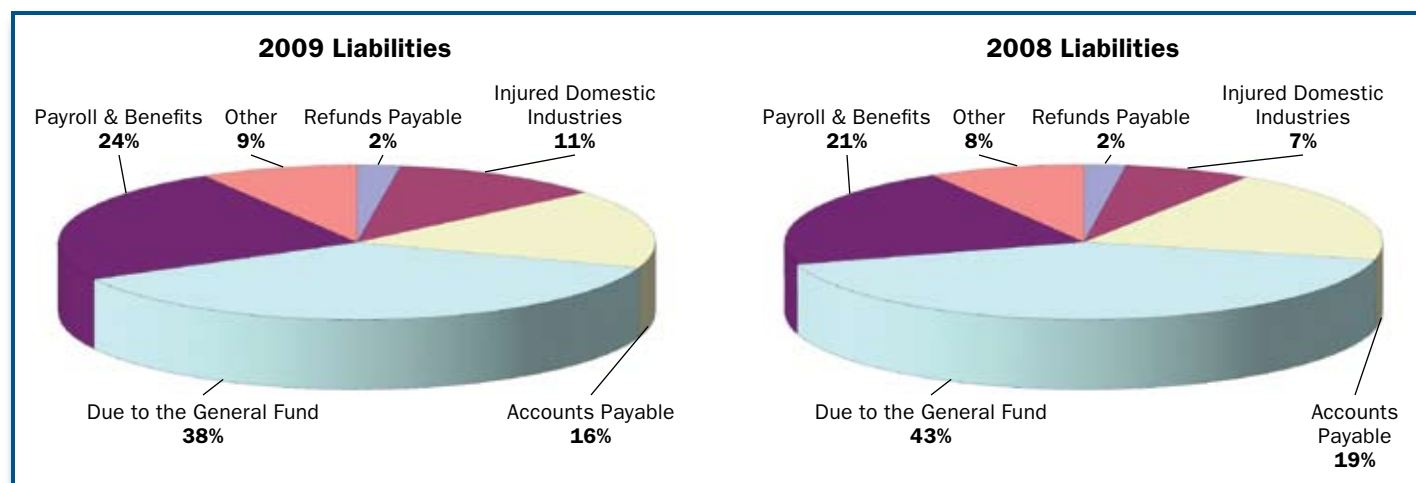
### Consolidated Balance Sheet

The Consolidated Balance Sheet presents the property owned by CBP (assets), amounts owed by CBP (liabilities), and the amounts of the difference (net position). As of September 30, 2009, total assets were \$15.2 billion, an 8 percent increase from FY 2008, which was primarily due to the construction of tactical infrastructure and virtual fence along the U.S. southern border.

# Financial Management



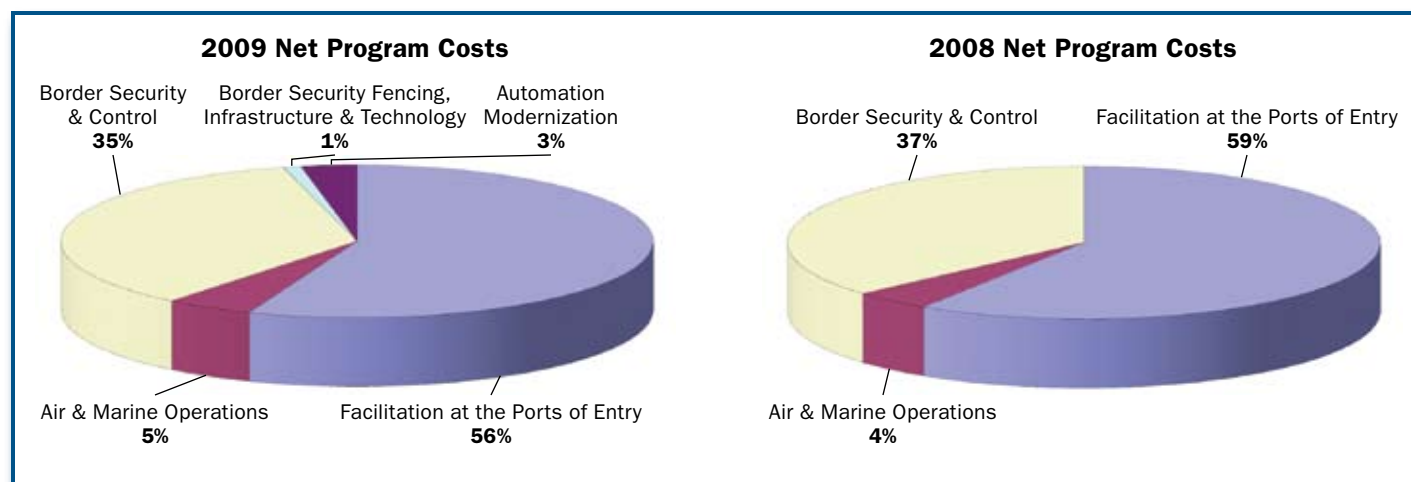
As of September 30, 2009, total liabilities were \$5.3 billion, a decrease of 7 percent over FY 2008, which related to amounts due to the Treasury General Fund. The charts below present a comparison of the major categories of assets and liabilities as a percentage of the totals for FY 2009 and FY 2008.



## Consolidated Statement of Net Cost

The Consolidated Statement of Net Cost presents the net cost of the major CBP programs as they relate to the goals of the 2009–2014 Strategic Plan. The gross cost less any offsetting revenue for each program equals net cost of operations. Net cost of operations was \$10.7 billion.

# Financial Management



## Consolidated Statement of Changes in Net Position

The Consolidated Statement of Changes in Net Position represents those accounting transactions that caused the net position of the balance sheet to change from the beginning to the end of the reporting period. CBP's net cost of operations serves to reduce the net position. Appropriations used totaled \$9.2 billion, representing 75 percent of CBP's total financing sources. CBP collected and retained \$2.2 billion of non-exchange revenue, amounting to 18 percent of total financing sources, which was used to fund CBP operations.

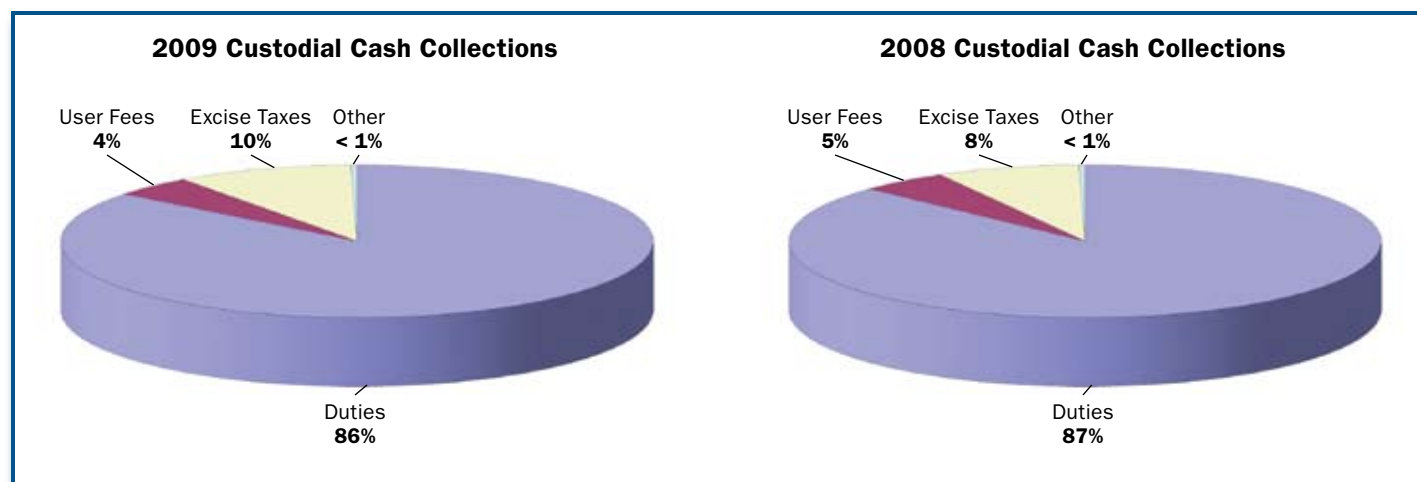
## Combined Statement of Budgetary Resources

The Combined Statement of Budgetary Resources illustrates how budgetary resources were made available, as well as their status at the end of FY 2009. CBP had \$17.7 billion in budgetary resources, of which \$3.1 billion were unobligated. CBP incurred obligations of \$14.6 billion and recorded \$15 billion in gross outlays by the end of the fiscal year.

## Consolidated Statement of Custodial Activity

The Consolidated Statement of Custodial Activity presents non-entity (financial activity conducted by CBP on behalf of others) revenue and refunds using a modified cash basis. This method reports revenue from cash collections separately from receivable accruals, and cash disbursements are reported separately from payable accruals. The custodial revenue, using the modified cash basis, for FY 2009 was \$26 billion.

# Financial Management



## Limitations of the Financial Statements

The principal financial statements have been prepared to report the financial position and results of the operations of CBP, pursuant to the requirements of 31 U.S.C. 3515(b). While the financial statements have been prepared from the books and records of CBP in accordance with Generally Accepted Accounting Principles for Federal entities and the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records.

The financial statements should be read with the realization that they are a component of the U.S. Government, a sovereign entity. Liabilities not covered by budgetary resources cannot be liquidated without the enactment of an appropriation by Congress, and payment of liabilities, other than for contracts, can be abrogated by the sovereign entity.



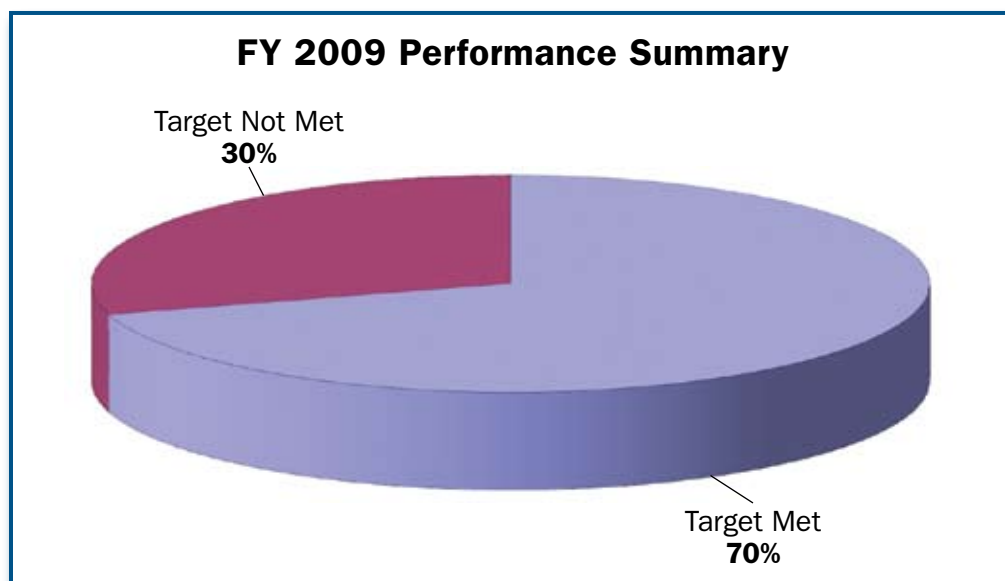
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# Performance Section

# Performance Summary

The chart below highlights CBP's success in achieving fiscal year 2009 performance goals. The performance measures are established as an integral part of the CBP Strategic Plan and the DHS Future Years Homeland Security Program (FYHSP). The measurement data are collected through various systems and methods and then entered into the FYHSP system for tracking and compiling for management decision-making and year-end reporting.



Security, threat, and risk analyses often necessitate changes in the agency's focus. CBP performance measures continue to evolve to better reflect operational functions and alignment with critical missions.

For fiscal year 2009, CBP has 27 reportable performance measures that support the Strategic Plan. Of the 27 performance measures, 19 were met and 8 were not met. The performance data presented in this report are in accordance with the guidance provided by OMB. The data integrity discussion in the "Systems and Controls" section of the "Management's Discussion and Analysis" (page 61) describes CBP's commitment to providing quality and timely performance information to increase its value to CBP management and interested parties. CBP managers routinely use these data to improve the quality of program management and demonstrate accountability of program results.

## Individual Performance Measure Results

This section describes CBP's fiscal year 2009 results for each FYHSP performance measure by the strategic goal and performance objective they support. Although some of the performance measures may relate to more than one performance objective, each performance measure was aligned under the single objective considered most relevant or meaningful. Discussions of the key performance measures can be found in the "Management's Discussion and Analysis" section under "Performance Goals and Results," beginning on page 48.

# Performance Summary

## Strategic Goal 1: Secure Our Nation's Borders to Protect America from the Entry of Dangerous People and Goods and Prevent Unlawful Trade and Travel.

**Performance Objective**—Establish and maintain effective control of air, land, and maritime borders through the use of the appropriate mix of infrastructure, technology, and personnel.

<b>Performance Measure</b> —Border miles under effective control (including certain coastal sectors).	
Explanation of FY 2009 Results	<b>Target Met</b> —See page 51 for results and detailed discussion.

<b>Performance Measure</b> —Border miles with increased situational awareness aimed at preventing illegal entries per year.						
Description	This measure indicates the number of border miles where situational awareness has increased or improved to prevent illegal entries into the United States. The Border Patrol uses the following levels to describe border security: Remote/Low Activity, Less Monitored, Monitored, and Controlled. Border regions classified as Remote/Low Activity are generally characterized by rugged and inaccessible terrain. By raising the border security status to Less Monitored (or higher) the Border Patrol improves its situational awareness and border security.					
KEY HIGHLIGHTS						
Fiscal Year	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Target	FY 2009 Results
Target/Actual Indicator	N/A	N/A	387 Miles	480 Miles	100 Miles	555 Miles
Explanation of FY 2009 Results	<b>Target Met</b> —OBP used a balanced application of personnel, technology, and tactical infrastructure, as well as partnerships with other law enforcement—particularly on the Northern Border—to raise situational awareness in the higher risk areas of our border.					
Data Source	Operational Requirements Based Budget Program (ORBBP) database.					

# Performance Summary

**Performance Measure**—Percent of apprehensions at Border Patrol checkpoints.

Description	Checkpoints are facilities used by the Border Patrol to monitor traffic on routes of egress from areas on the Southwestern and Northern borders. Checkpoints are an integral part of the Border Patrol's defense-in-depth, layered strategy. As such, measurements of activities occurring at checkpoints serve not only to gauge checkpoint operational effectiveness, but also serve as barometers of the effectiveness of the Border Patrol's overall national border enforcement strategy to deny illegal entries into the United States. This measure examines one component of checkpoint activity, the number of persons apprehended by Border Patrol agents, and compares these apprehensions to Border Patrol apprehensions made nationwide.
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## KEY HIGHLIGHTS

Fiscal Year	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Target	FY 2009 Results
Target/Actual Indicator	N/A	5.90%	5.00%*	2.00%	> 3.00%	2.85%
Explanation of FY 2009 Results	<b>Target Not Met</b> —Apprehensions at the checkpoints, as a percentage of all OBP apprehensions, have been reduced from FY 2006 levels of nearly 6%. This measure serves as a barometer of our operational effectiveness in the immediate border area. Increased operational control at the border may help explain the drop in apprehensions at checkpoints.					
Recommended Action	Border Patrol is examining a better, more holistic methodology for targeting its percentage of checkpoint apprehensions by reviewing the coordination and interconnection of checkpoint operations with other operations used to control the border environment.					
Data Source	Summary records from Border Patrol's Checkpoint Activity Report (CAR) and data maintained in two databases: ENFORCE and BPETS.  *Percentage does not include data from Tucson Sector.					

**Performance Measure**—Percent of traffic checkpoint cases referred for prosecution

Description	This measure examines the percentage of Border Patrol checkpoint apprehensions that are referred for federal, state, and local prosecution. Prosecution referrals illustrate the effectiveness of Border Patrol checkpoint operations in identifying dangerous criminals for prosecution, this enhancing overall public safety.
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## KEY HIGHLIGHTS

Fiscal Year	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Target	FY 2009 Results
Target/Actual Indicator	N/A	N/A	13%	18%	> 18%	25%
Explanation of FY 2009 Results	<b>Target Met</b> —OBP successfully worked with strategic partners to present a high number of cases for prosecution, with the intent to deter criminal aliens and the criminal element in border communities.					
Data Source	Reported by quarterly data calls to Border Patrol sectors.					

# Performance Summary

<b>Performance Measure</b> —Number of Border Patrol Agents trained in rescue and emergency medical procedures.						
Description	The number of agents trained and certified in rescue and emergency medical procedures. One of the Border Patrol’s Border Safety Initiative (BSI) objectives is to increase the number of agents trained and certified in rescue and emergency medical procedures at the field agent level to improve the Border Patrol’s capabilities to prevent and respond to humanitarian emergencies to create a safer and more secure border region.					
KEY HIGHLIGHTS						
Fiscal Year	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Target	FY 2009 Results
Target/Actual Indicator	N/A	N/A	796	1,381	690	1,956
Explanation of FY 2009 Results	<b>Target Met</b> —As the number of Border Patrol agents has increased significantly, OBP has intensified its efforts to train a higher number of agents in rescue and emergency medical response capabilities. These skills improve an agent’s ability to provide humanitarian assistance to persons in distress.					
Data Source	Border Patrol Enforcement Tracking System (BPETS).					

<b>Performance Measure</b> —Number of airspace incursions along the southern border (extending the physical zone of security beyond the borders).						
Description	The number of airspace incursions along the southern border. The measure monitors OAM efforts in reducing, with the intent of ultimately denying, the use of border air space for acts of terrorism or smuggling using intelligence and threat assessments. OAM continues to gather and analyze intelligence on past and current threat patterns to forecast and disseminate information about potential and emerging threats. The targeted goals for this measure are to maintain this low level of border incursions at a minimum and reduce it if possible, until there are no border incursions.					
KEY HIGHLIGHTS						
Fiscal Year	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Target	FY 2009 Results
Target/Actual Indicator	N/A	13	32	9	10	20
Explanation of FY 2009 Results	<b>Target Not Met</b> —There were a total of 20 incursions of other than ultra-light or Mexican Military aircraft on the southwest border for FY 2009. An increase in ground inspection successes has forced drug smuggling organizations to increase the use of air assets for smuggling purposes.					
Recommended Action	Radar technology and integration software is currently being upgraded to increase the likelihood of detection of smaller and slower air targets.					
Data Source	TECS, AMOR and validated real-time data.					



# Performance Summary

**Performance Measure**—Percent of air support launches accomplished to support border ground agents to secure the border.

**Description** A primary and important measure for OAM is its capability to launch an aircraft when a request is made for aerial support. This measure captures the percent of all requests made for air support to which the program was able to respond.

## KEY HIGHLIGHTS

Fiscal Year	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Target	FY 2009 Results
Target/Actual Indicator	N/A	N/A	98%	98%	> 95%	99%
Explanation of FY 2009 Results	<b>Target Met</b> —Of 19,487 requests, 120 “no launches” were submitted. These requests for air support could not be supported, due to either improper aircraft, crew or maintenance problems.					
Data Source	Air and Marine Operations Reporting System (AMOR).					

**Performance Measure**—Percent of at-risk miles under strategic air surveillance (strategic air coverage).

**Description** The percent of at risk miles under strategic air surveillance evaluated according to up-to-the-minute information and intelligence. This measure describes the area of the U.S. border determined to be under the span of control of OAM assets. CBP OAM uses a multi-level approach for aerial response and support to accomplish its goals:

- Strategic surveillance for the P-3 and UAS aircraft;
- Intelligence driven support for the rapid deployment of forces; and
- Strategic and tactical support to ground law enforcement such as the Office of Border Patrol and ICE.

## KEY HIGHLIGHTS

Fiscal Year	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Target	FY 2009 Results
Target/Actual Indicator	N/A	55%	60%	84%	80%	82%
Explanation of FY 2009 Results	<b>Target Met</b> —The addition of northern border radars from DoD and the Federal Aviation Administration (FAA) has increased the percentage of miles under strategic surveillance.					
Data Source	SAP, CARMAC, APATS, CAMITS generated reports and analyst spreadsheets.					



# Performance Summary

<b>Performance Measure</b> —Total number of cumulative miles of permanent tactical infrastructure constructed.						
Description	The total number of permanent cumulative miles of tactical infrastructure constructed. Tactical infrastructure consists of barriers built to deter or delay illegal entries into the United States. Tactical infrastructure includes pedestrian fencing, all-weather roads, vehicle fence and permanent lighting installed in the border areas to support border enforcement activities.					
KEY HIGHLIGHTS						
Fiscal Year	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Target	FY 2009 Results
Target/Actual Indicator	N/A	N/A	400.2 Miles	501.6 Miles	800 Miles	812 Miles
Explanation of FY 2009 Results	Target Met—Includes 636.5 miles of pedestrian and vehicle fence, 106.5 miles of permanent roads, and 68.6 miles of permanent lighting.					
Data Source	Permanent tactical infrastructure implementation plans and installation progress data in ORBBP, SAP, ENFORCE, and BPETS.					

<b>Performance Measure</b> —Percent of border miles covered by SBInet technology – southwest border.						
Description	SBInet is an integrated system of technology such as radars, cameras, and ground sensors that provide diction and surveillance capabilities to law enforcement personnel over the U.S. border. This measure describes the border miles covered by SBInet technology as a percentage of the total of U.S. southwest land border miles.					
KEY HIGHLIGHTS						
Fiscal Year	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Target	FY 2009 Results
Target/Actual Indicator	N/A	N/A	N/A	N/A	35.10%	27%
Explanation of FY 2009 Results	<b>Target Not Met</b> —Experiencing budget cuts (will not deploy AJO this FY and contractor delivery schedule slips. AJO is sector in Arizona. More specifically, Ajo, Arizona).					
Recommended Action	SBI and the system prime contractor continued to resolve technical and programmatic issues that precluded on-time delivery of capabilities to the border. Corrective actions were identified, and in many cases already implemented. Technology deployments along both the southern and northern borders are underway today and future progress measures will be improving significantly.					
Data Source	Wide-Area Sensor Surveillance Planning Tool (WASSPT).					

**Performance Objective**—Deploy and employ the most effective inspection and scanning technology available at designated land border ports, airports, seaports, permanent Border Patrol traffic checkpoints, and international areas in which CBP operates to detect and prevent the entry of hazardous materials, goods, and instruments of terror into the United States.

# Performance Summary

**Performance Measure**—Percent of truck and rail containers screened for contraband and concealed people using imaging or physical inspection.

Explanation  
of FY 2009  
Results

**Target Met**—See page 52 for results and detailed discussion.

**Performance Measure**—Percent of sea containers screened for contraband and concealed people using imaging or physical inspection.

Explanation  
of FY 2009  
Results

**Target Met**—See page 52 for results and detailed discussion.

**Performance Objective**—Secure the use and availability of the best quality and quantity of biometric and biographical information at designated land border ports, airports, seaports, Border Patrol Stations, permanent checkpoints, and international areas in which CBP operates to detect and prevent the entry of dangerous people into the United States.

**Performance Measure**—Percent of individuals screened against law enforcement databases for entry into the United States.

Explanation  
of FY 2009  
Results

**Target Met**—See page 53 for results and detailed discussion.

## **Strategic Goal 2:** Ensure the Efficient Flow of Legitimate Trade and Travel across U.S. Borders.

**Performance Objective**—Expedite the processing of people, products, and conveyances at land border ports, airports, and seaports, through the use of accurate advance information and modernized systems for cargo processing.

**Performance Measure**—Air passengers compliant with laws, rules, and regulations (%).

Explanation  
of FY 2009  
Results

**Target Not Met**—See page 55 for results and detailed discussion.

# Performance Summary

Performance Measure—Land border passengers compliant with laws, rules, and regulations (%).						
Description	The compliance rate of land border vehicle passengers with all of the laws, rules, and regulations that CBP enforces at the Ports of Entry, with the exception of agriculture laws and regulations.					
KEY HIGHLIGHTS						
Fiscal Year	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Target	FY 2009 Results
Target/Actual Indicator	99.9%	99.9%	99.9%	99.9%	99.9%	99.8%
Explanation of FY 2009 Results	Target Not Met—The process used to compile COMPEX data was substantially revised during FY 2009, following GAO audit recommendations to expand COMPEX to fully incorporate all qualifying immigration and agricultural violations. This resulted in an increase in the total number of minor violations included. In addition, the implementation of WHTI at major land border ports, completed during 2008, resulted in more thorough inspections and document checks, which may have also contributed to an increase in minor violations. These increases in observed minor violations resulted in an overall reduction in the computed land border passenger compliance rate.					
Recommended Action	CBP will continue to enhance information provided to travelers in advance of arrival, through pre-clearance programs, trusted traveler programs, and traveler education efforts such as the “Know Before You Go” web page on the CBP web site <a href="http://www.cbp.gov/xp/cgov/travel/vacation/kbyg/">www.cbp.gov/xp/cgov/travel/vacation/kbyg/</a> and signage at airports in an effort to better inform travelers and familiarize them with CBP requirements.					
Data Source	The Enforcement Communication System (TECS), Categories I and II violations.					

<i>Performance Measure</i> —Border vehicle passengers in compliance with agricultural quarantine regulations (percent compliant).						
Description	The degree of compliance with U.S. Department of Agriculture (USDA) agricultural quarantine regulations and other mandatory agricultural product restrictions. CBP randomly samples border vehicle passengers for compliance with all USDA laws, rules and regulations using USDA guidance on sampling procedures.					
KEY HIGHLIGHTS						
Fiscal Year	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Target	FY 2009 Results
Target/Actual Indicator	93.7%	92.9%	95.7%	97.7%	95.5%	97.06%
Explanation of FY 2009 Results	<b>Target Met</b> —The border vehicle agricultural compliance rate is determined by the rate of occurrence of all agriculture-related violations of arriving travelers. CBP has been moving aggressively to fill open Agricultural Specialist positions and continued progress in reaching full staffing levels has enable CBP to maintain the high level of compliance achieved last year.					
Data Source	USDA Work Accomplishment Data System (WADS) Agricultural Quarantine Inspection monitoring activities.					

# Performance Summary

<b>Performance Measure</b> —International air passengers in compliance with agriculture quarantine regulations (percent compliant).						
Description	The degree of compliance with agriculture quarantine regulations and other mandatory agricultural product restrictions. CBP randomly samples international air passengers for compliance with all U.S. Department of Agriculture (USDA) laws, rules and regulations using USDA guidance on sampling procedures.					
KEY HIGHLIGHTS						
Fiscal Year	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Target	FY 2009 Results
Target/Actual Indicator	95.8%	95.5%	94.2%	95.8%	96%	96.12%
Explanation of FY 2009 Results	<b>Target Met</b> —The air passenger agricultural compliance rate is determined by the rate of occurrence of all agriculture-related violations of arriving travelers. CBP has been moving aggressively to fill open Agricultural Specialist positions and continued progress in reaching full staffing levels may have contributed to the improvement observed for FY 2009.					
Data Source	USDA Work Accomplishment Data System (WADS) Agricultural Quarantine Inspection monitoring activities.					

<b>Performance Measure</b> —Land border apprehension rate for major violations.						
Description	This measure provides a statistically valid estimate of the apprehension rate of land vehicle passengers for major violations who enter the United States through land POEs. The sample rate is used to estimate the “expected” number of major violations in the general population. Major violations found during regular primary inspection processes are compared to the “expected” number to compute the apprehension rate for major violations among vehicle passengers traveling into the United States. A major violation involves serious criminal activity including possession of narcotics, smuggling of prohibited products, human smuggling, weapons possession, fraudulent U.S. documents, and other offenses serious enough to result in arrest.					
KEY HIGHLIGHTS						
Fiscal Year	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Target	FY 2009 Results
Target/Actual Indicator	N/A	N/A	34.5%	28.9%	28%	56.4%
Explanation of FY 2009 Results	<b>Target Met</b> —The process used to compile COMPEX data was substantially revised during FY 2009, following GAO audit recommendations to expand COMPEX to fully incorporate all qualifying immigration and agricultural violations.					
Data Source	The Enforcement Communication System (TECS), Categories I and II violations.					

# Performance Summary

**Performance Measure**—Air passenger apprehension rate for major violations.

Description	This measure provides a statistically valid estimate of the apprehension rate of air passengers for major violations at international airports. The sample rate is used to estimate the “expected” number of major violations in the general population. Major violations found during regular primary inspection processes are compared to the “expected” number to compute the apprehension rate for major violations among air passengers traveling into the United States. A major violation involves serious criminal activity including possession of narcotics, smuggling of prohibited products, human smuggling, weapons possession, fraudulent U.S. documents, and other offenses serious enough to result in arrest.
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## KEY HIGHLIGHTS

Fiscal Year	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Target	FY 2009 Results
Target/Actual Indicator	N/A	N/A	40.3%	25%	25%	69.1%
Explanation of FY 2009 Results	<b>Target Met</b> —The process used to compile COMPEX data was substantially revised during FY 2009, following GAO audit recommendations to expand COMPEX to fully incorporate all qualifying immigration and agricultural violations. All passengers with violations identified through pre-screening programs and information provided in advance of arrival are identified prior to normal processing and are not included in the COMPEX sample.					
Data Source	The Enforcement Communication System (TECS), Categories I and II violations.					

**Performance Measure**—Compliance rate for C-TPAT members with established C-TPAT security guidelines.

Explanation of FY 2009 Results	<b>Target Not Met</b> —See page 56 for results and detailed discussion.
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# Performance Summary

**Performance Measure**—Percent of CBP workforce using ACE functionality to manage trade information.

## Description

The number of CBP personnel using ACE, compared with the targeted adoption rate, shows that internal personnel have easier and quicker access to more complete, accurate, and sophisticated information than in the past.

## KEY HIGHLIGHTS

Fiscal Year	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Target	FY 2009 Results
Target/Actual Indicator	8%	23%	30%	38.3%	63%	40%
Explanation of FY 2009 Results	<b>Target Not Met</b> —CBP user rate was impacted by later than expected deployment of ACE capability in FY 2009. CBP field personnel will continue to use ACS as the cargo processing system of record until ACE releases replace it.					
Recommended Action	CBP management will continue to focus attention on the release of capabilities that will introduce ACE functionality to a greater number of CBP trade processing personnel.					
Data Source	ACE system-use metrics.					

**Performance Objective**—Employ the use of risk management and targeting to detect and deter trade non-compliance and apply consistent enforcement actions.

**Performance Measure**—Total number of linked electronic sources from CBP and other government agencies for targeting information.

## Description

The number of electronic sources to which CBP information technology systems are linked to share information for targeting purposes. The ability to accurately and efficiently identify a potential risk to border security in any conveyance entering the United States is improved by linking data sources from CBP automated systems and other government agencies, through ACE, as a single source for border decision makers.

## KEY HIGHLIGHTS

Fiscal Year	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Target	FY 2009 Results
Target/Actual Indicator	N/A	9	16	19	22	22
Explanation of FY 2009 Results	<b>Target Met</b> —CBP met the goal of providing targeted information by creating access to and linking electronic data sources. This has enabled CBP to improve decision-making with the efficient use of information for vetting security risks.					
Data Source	Targeting and Analysis Systems Program Office (TASPO).					

**Cross-Cutting Enabler**—Leverage intelligence and information sharing to maximize the effectiveness of our limited resources.

# Performance Summary

<b>Performance Measure</b> —Percent of time The Enforcement Communication System (TECS) is available to end users.						
Description	Quantification, as a percentage, of the end-user experience in terms of TECS service availability. TECS is a CBP mission critical law enforcement application system designed to identify individuals and businesses suspected of or involved in violation of federal law. TECS is also a communications system permitting message transmittal between DHS law enforcement offices and other national, state, and local law enforcement agencies. TECS provides access to the FBI’s National Crime Information Center (NCIC) and the National Law Enforcement Telecommunication Systems (NLETS) with the capability of communicating directly with state and local enforcement agencies. NLETS provides direct access to state motor vehicle departments.					
KEY HIGHLIGHTS						
Fiscal Year	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Target	FY 2009 Results
Target/Actual Indicator	96.2%	98%	98.7%	99.9%	98%	99%
Explanation of FY 2009 Results	<b>Target Met</b> —The target was met based on the calculation of an adjusted availability. TECS ID was not working for a 3 week period in August. The adjusted availability was calculated by omitting the 3 week period in August, and using the availability numbers before and after the 3 week period. Results are based on synthetic transactions that are executed every 10 minutes. The synthetic transaction performs typical operations that an actual user would perform against TECS database and measure the success or failure of those transactions. The majority of failures during this period were due to problems with the automated process that performs the synthetic transactions.					
Data Source	Topaz, a web-based application that enables users to track and analyze availability and system performance problems.					



# Performance Summary

**Cross-Cutting Enabler**—Maximize the power of partnerships.

<b>Performance Measure</b> —Percent of requested cargo examinations conducted at foreign ports of origin in cooperation with host nations under CSI.						
Description	CBP officials located at foreign ports participating under agreements between the host nations and CSI request examinations on containers that have been identified as higher-risk. This measure is the percent of requested container examinations resolved or conducted by foreign Customs officials meeting CBP examination standards and requirements divided by the total number of examinations requested by CBP CSI officials. The measure is an indication of the extent to which potential higher-risk cargo is satisfactorily inspected before it leaves the foreign port of origin. It also reflects the cooperation of foreign Customs officials who are not required by law to complete examinations, but do so by arrangement through the Declaration of Principles between CBP and the host country.					
KEY HIGHLIGHTS						
Fiscal Year	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Target	FY 2009 Results
Target/Actual Indicator	N/A	N/A	N/A	95.1%	97%	93%
Explanation of FY 2009 Results	<b>Target Not Met</b> —The FY 2009 target of 97% was initially set slightly higher than a limited sampling of data from FY 2008. Detailed analysis of the complete set of FY 2008 data supports a target for this measure of 95%. Actual examination rates depend on host country logistics, procedures, and NII equipment at each port. For FY 2009, relatively low examination rates at the ports of Shenzhen and Shanghai, China have significantly impacted CSI’s overall examination rates and have caused the CSI examination average to significantly decrease below expected standards.					
Recommended Action	CSI is working with DOS to address the issues encountered at the ports of Shenzhen and Shanghai with the Chinese government.					
Data Source	Automated Targeting System (ATS).					

# Performance Summary

Performance Measure—Percent of worldwide, U.S.-destined containers processed through CSI ports.						
Description	The percentage of worldwide, U.S.-destined containers (tracked via their respective bills of lading) processed through CSI ports as a deterrence action to detect and prevent terrorist weapons of mass destruction/effects (WMD/WMEs) and other potentially harmful materials from leaving foreign ports bound for U.S. ports. Processing may include any of the following: <ul style="list-style-type: none"><li>• U.S.-destined cargo manifest/bills of lading data reviewed using the Automated Targeting System (ATS);</li><li>• Further research conducted;</li><li>• Collaboration with host country and intelligence representatives; and</li><li>• Physical examination of the container.</li></ul>					
KEY HIGHLIGHTS						
Fiscal Year	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Target	FY 2009 Results
Target/Actual Indicator	73%	82%	86%	86.1%	86%	86.1%
Explanation of FY 2009 Results	Target Met—During FY 2009, the CSI Program continued to maintain operations at 58 of the largest international shipping ports, through which 86.1% of the worldwide total of U.S.-destined containers was processed.					
Data Source	Shipping volume processed through the ports (bills of lading), Port Import Export Reporting Service (PIERS).					

<i>Performance Measure</i> —Number of trade accounts with access to ACE functionality to manage trade information.						
Description	The extent to which ACE is made available to and used by members of the trade community (importers, brokers, carriers, etc.) to process and manage trade-related information.					
KEY HIGHLIGHTS						
Fiscal Year	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Target	FY 2009 Results
Target/Actual Indicator	1%*	3,737**	11,950	15,465	15,500	17,014
Explanation of FY 2009 Results	Target Met—Trade accounts target continues to grow showing continued trade interest in using ACE.					
Data Source	Cargo Systems Program Office. *Performance measure was previously reported as percent of trade accounts with access to ACE functionality to manage trade information. **FY 2006 actual has been restated as a number.					

# Performance Summary

**Cross-Cutting Enabler**—Promote achievement and a results-driven culture through an effective management infrastructure that fosters the highest standards of integrity.

**Performance Measure**—Percent of network availability.

<b>Description</b>	The percentage of network availability to users. The CBP network provides the basis for linking all IT systems for communications and access to mission critical systems. High levels of system availability are needed to accomplish CBP's mission.
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## KEY HIGHLIGHTS

Fiscal Year	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Target	FY 2009 Results
Target/Actual Indicator	N/A	99.9%	99.4%	99.7%	98%	99.068%
Explanation of FY 2009 Results	<b>Target Met</b> —Due to the shut down of eHealth, monitoring tool results provided for 4th quarter and averaged into FY09 are only estimates. Unable to provide this information due to elimination of the monitoring tool. Currently, there is not a new process in place for obtaining this data. Work is underway to resolve the situation and resume the collection of data.					
Data Source	Simple Network Management Protocol (SNMP) data source is directly retrieved from managed device every five minutes.					



# Financial Section

# Message from the CFO



No mission in the Federal Government is more important than U.S. Customs and Border Protection's (CBP), as the men and women of CBP work continuously to protect our Nation from dangerous people and dangerous goods that would cause harm to our way of life. We balance this responsibility with the need to facilitate the flow of legitimate travelers and goods into the United States.

Sound, reliable financial management is important to CBP for many reasons. Most of our agency's resources come from the U.S. Treasury, and we are accountable to Congress and the American taxpayer to explain how we use the money appropriated to us. As part of our responsibilities, we also collected \$29 billion in revenue this year, and we must be sound custodians of this revenue. Finally, our responsibilities are substantial

and our budget is finite, and so we must have sound financial management for informed decision making so that we make the best use of our resources.

Transparency and accountability are common objectives these days, associated with financial management and government operations, and especially the use of American Recovery and Reinvestment Act of 2009 (ARRA) funds. At CBP, we welcome this accountability. During Fiscal Year 2009, CBP received \$680 million in ARRA funds for infrastructure investment. ARRA allocated funds for the procurement and deployment of non-intrusive inspection (NII) systems and tactical communications equipment and radios; the expedited development and deployment of border security technology on the Southwest border; and the planning, management, design, alteration and construction of CBP-owned border land ports of entry. Our use of these funds will not only make our Nation more secure, but will also help to create jobs and stimulate the economy.

A benchmark of financial management success is to obtain an audit opinion from a third party which concludes that our financial statements are fairly presented and conform to generally accepted accounting principles. Once again for Fiscal Year (FY) 2009, CBP has received such an opinion—an unqualified opinion on its full set of financial statements. The unqualified opinion on our financial statements is another positive reflection that CBP continues to demonstrate discipline and accountability in the execution of our fiscal stewardship responsibilities.

Solid financial management relies on several critical elements, most notably a capable workforce, guided by practices and processes and supported by sound financial management systems. We have a solid foundation in each of these areas, and continue to build upon them each year. The workforce under the CFO's office grew by 15% during 2009, helping us keep up with our growing mission operations. We strengthened our processes, most notably in the area of internal controls testing. And our enterprise resource planning system, SAP, continues to provide the current, up-to-the-minute financial information necessary for CBP operational personnel and managers to make accurate, informed decisions.

I can provide reasonable assurance that the objectives of Section 2 (Management Controls) and Section 4 (Financial Management Systems) of the Federal Managers' Financial Integrity Act have been achieved, with the exception of the material weaknesses and instances of nonconformance identified in the Management Discussion and Analysis

# Message from the CFO

section of this report. We have room for improvement. We are correcting issues identified by internal management evaluations, as well as auditor-identified weaknesses. Recurring issues in custodial revenue management need to be resolved, and emerging challenges such as managing and accounting for more complex property, plant, and equipment must be addressed in the upcoming year. CBP is committed to addressing all of our financial management challenges by continuing to implement corrective measures that improve our oversight and accountability.

In addition to addressing our identified areas of weakness, the agency is also anticipating that the next few years will look different than our most recent years gone by. Over the past few years, CBP has been in a state of rapid, consistent expansion. We have strengthened our control over the U.S. borders through additional law enforcement staff, the application of technology and assets, and physical infrastructure.

Going forward, we foresee a period of relative resource stabilization. Current outyear budget estimates project no real growth for the agency. Furthermore, our operations are funded by some of the revenue which we collect. Most of this revenue is derived from international passenger travel, which has declined during the recession. While our security responsibilities have not diminished, the funding available to pay for border enforcement declines.

This change in resource outlook only further emphasizes our need for sound stewardship. To this end, we fully embrace Secretary Napolitano's Efficiency Review Initiative, which is aimed at improving efficiency and streamlining decision making through a series of agency-wide initiatives. We continue to strengthen the agency's acquisition and program management abilities, to help us obtain the operational capabilities we need to meet our mission, within cost and schedule. A final area of emphasis during the upcoming year is our continued strengthening of internal controls over financial reporting, and supporting the larger departmental effort to have these controls audited in compliance with the DHS Financial Accountability Act.

I would like to thank the men and women that make up this organization for the hard work they do every day. While processes and systems are important, first and foremost, CBP and the Office of Administration rely on our employees to get the job done. How we continue to grow, improve, and remain successful is our collective challenge. Our goals remain to provide timely, reliable, and useful financial management information to Congress and the American public, and to enable the managers across CBP to make smart business decisions.



Eugene H. Schied, Chief Financial Officer  
U.S. Customs and Border Protection  
October 23, 2009



# Financial Statements

## U.S. Customs and Border Protection Consolidated Balance Sheets As of September 30, 2009 and 2008 (in Thousands)

	2009	2008
<b>ASSETS (Note 2)</b>		
<b>Intragovernmental:</b>		
Fund Balance with Treasury (Note 3)	\$ 7,555,179	\$ 7,806,781
Accounts Receivable	30,134	17,856
Receivables Due from Treasury – Refund and Drawback (Note 5)	--	151,177
Advances and Prepayments (Note 11)	253,799	219,366
<b>Total Intragovernmental</b>	<b>7,839,112</b>	<b>8,195,180</b>
Cash and Other Monetary Instruments (Note 4)	5,192	6,926
Accounts Receivable, Net (Note 5)	180,498	177,644
Taxes, Duties and Trade Receivables, Net (Note 6)	1,873,702	2,078,012
Inventory and Related Property, Net (Note 7)	113,772	102,725
General Property, Plant and Equipment, Net (Note 9)	5,205,655	3,508,097
Advances and Prepayments (Note 11)	731	329
<b>TOTAL ASSETS</b>	<b>\$ 15,218,662</b>	<b>\$ 14,068,913</b>
Stewardship PP&E (Note 10)		
<b>LIABILITIES (Note 12)</b>		
<b>Intragovernmental:</b>		
Accounts Payable	\$ 322,866	\$ 373,478
Other		
Due to the Treasury General Fund	1,960,419	2,389,646
Accrued FECA Liability (Note 12)	149,144	138,021
Other Unfunded Employment Liabilities (Note 12)	872	--
Employee Benefits and Taxes	79,479	62,540
Advances From Others	15,354	15,070
<b>Total Intragovernmental</b>	<b>2,528,134</b>	<b>2,978,755</b>
Accounts Payable	556,589	741,144
Environmental & Disposal Liabilities (Note 12 and 14)	13,334	12,769
Other		
Accrued Payroll and Benefits (Note 13)	1,299,412	1,214,595
Refunds Payable (Note 15)	125,743	130,020
Injured Domestic Industries (Note 15)	612,674	395,478
Liabilities for Antidumping/Countervailing Duties	108,391	164,104
Software License Agreements (Note 12 and 16)	16,894	32,737
Legal Contingent Liabilities (Note 17)	73,002	59,592
<b>TOTAL LIABILITIES</b>	<b>\$ 5,334,173</b>	<b>\$ 5,729,194</b>
Commitments and Contingencies (Note 17)		
<b>NET POSITION:</b>		
Unexpended Appropriations	4,748,349	4,759,210
Cumulative Results of Operations – Earmarked Funds (Note 18)	992,257	1,057,216
Cumulative Results of Operations – Other Funds	4,143,883	2,523,293
<b>TOTAL NET POSITION</b>	<b>\$ 9,884,489</b>	<b>\$ 8,339,719</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 15,218,662</b>	<b>\$ 14,068,913</b>

The accompanying notes are an integral part of these financial statements.



# Financial Statements

## U.S. Customs and Border Protection Consolidated Statements of Net Cost For the Years Ended September 30, 2009 and 2008 (in Thousands)

	2009	2008
<b>Office of Field Operations Border Security Inspections and Trade Facilitation at Ports of Entry</b>		
Gross Cost	\$ 6,173,067	\$ 5,873,813
Less: Earned Revenue	209,174	204,201
<b>Net Program Costs</b>	<u>5,963,893</u>	<u>5,669,612</u>
<b>Border Security and Control Between Ports of Entry</b>		
Gross Cost	3,891,284	3,646,021
Less: Earned Revenue	131,856	126,753
<b>Net Program Costs</b>	<u>3,759,428</u>	<u>3,519,268</u>
<b>Border Security Fencing, Infrastructure and Technology</b>		
Gross Cost	107,631	--
Less: Earned Revenue	3,647	--
<b>Net Program Costs</b>	<u>103,984</u>	<u>--</u>
<b>Automation Modernization</b>		
Gross Cost	335,920	--
Less: Earned Revenue	11,383	--
<b>Net Program Costs</b>	<u>324,537</u>	<u>--</u>
<b>Air and Marine Operations</b>		
Gross Cost	531,201	425,667
Less: Earned Revenue	17,999	14,798
<b>Net Program Costs</b>	<u>513,202</u>	<u>410,869</u>
<b>Total Gross Cost</b>	11,039,104	9,945,501
<b>Less: Total Earned Revenue</b>	374,060	345,752
<b>Net Cost of Operations (Note 19 and 20)</b>	<u>\$ 10,665,044</u>	<u>\$ 9,599,749</u>

The accompanying notes are an integral part of these financial statements.

# Financial Statements

## U.S. Customs and Border Protection Consolidated Statement of Changes In Net Position For the Year Ended September 30, 2009 (In Thousands)

	FY 2009		
	Earmarked Funds	All Other Funds	Consolidated Total
<b>Cumulative Results of Operations:</b>			
Beginning Balances	\$ 1,057,216	\$ 2,523,293	\$ 3,580,509
<b>Budgetary Financing Sources:</b>			
Appropriations Used	--	9,198,712	9,198,712
Non-exchange Revenue (Note 21)	2,242,845	5,429	2,248,274
Transfers In/Out Without Reimbursement (Note 21)	(1,360,013)	1,595,308	235,295
Other	--	(47,267)	(47,267)
<b>Other Financing Sources (Non-Exchange):</b>			
Donations and Forfeitures of Property	--	3,917	3,917
Transfers In/Out Without Reimbursement	--	104,146	104,146
Imputed Financing	--	477,598	477,598
Total Financing Sources	882,832	11,337,843	12,220,675
Net Cost of Operations	(947,791)	(9,717,253)	(10,665,044)
Net Change	(64,959)	1,620,590	1,555,631
<b>Cumulative Results of Operations</b>	<b>\$ 992,257</b>	<b>\$ 4,143,883</b>	<b>\$ 5,136,140</b>
<b>Unexpended Appropriations:</b>			
Beginning Balance	--	4,759,210	4,759,210
<b>Budgetary Financing Sources:</b>			
Appropriations Received (Note 23)	--	9,293,210	9,293,210
Appropriations Transferred In/Out	--	(19,128)	(19,128)
Other Adjustments	--	(86,231)	(86,231)
Appropriations Used	--	(9,198,712)	(9,198,712)
Total Budgetary Financing Sources	--	(10,861)	(10,861)
<b>Total Unexpended Appropriations</b>	<b>--</b>	<b>4,748,349</b>	<b>4,748,349</b>
<b>Net Position</b>	<b>\$ 992,257</b>	<b>\$ 8,892,232</b>	<b>\$ 9,884,489</b>

The accompanying notes are an integral part of these financial statements.

# Financial Statements

**U.S. Customs and Border Protection**  
**Consolidated Statement of Changes In Net Position**  
**For the Year Ended September 30, 2008**  
**(In Thousands)**

	FY 2008		
	Earmarked Funds	All Other Funds	Consolidated Total
<b>Cumulative Results of Operations:</b>			
Beginning Balances	\$ 1,027,476	\$ 1,619,414	\$ 2,646,890
<b>Budgetary Financing Sources:</b>			
Appropriations Used	--	7,254,124	7,254,124
Non-exchange Revenue (Note 21)	2,671,195	5,332	2,676,527
Transfers In/Out Without Reimbursement (Note 21)	(1,612,164)	1,808,747	196,583
Other	--	(19,644)	(19,644)
<b>Other Financing Sources (Non-Exchange):</b>			
Donations and Forfeitures of Property	--	14,002	14,002
Transfers In/Out Without Reimbursement	--	131,719	131,719
Imputed Financing	--	280,057	280,057
Total Financing Sources	1,059,031	9,474,337	10,533,368
Net Cost of Operations	(1,029,291)	(8,570,458)	(9,599,749)
Net Change	29,740	903,879	933,619
<b>Cumulative Results of Operations</b>	<b>\$ 1,057,216</b>	<b>\$ 2,523,293</b>	<b>\$ 3,580,509</b>
<b>Unexpended Appropriations:</b>			
Beginning Balance	--	4,124,660	4,124,660
<b>Budgetary Financing Sources:</b>			
Appropriations Received (Note 23)	--	7,929,110	7,929,110
Appropriations Transferred In/Out	--	15,292	15,292
Other Adjustments	--	(55,728)	(55,728)
Appropriations Used	--	(7,254,124)	(7,254,124)
Total Budgetary Financing Sources	--	634,550	634,550
<b>Total Unexpended Appropriations</b>	<b>--</b>	<b>4,759,210</b>	<b>4,759,210</b>
<b>Net Position</b>	<b>\$ 1,057,216</b>	<b>\$ 7,282,503</b>	<b>\$ 8,339,719</b>

The accompanying notes are an integral part of these financial statements.

# Financial Statements

## U.S. Customs and Border Protection Combined Statements of Budgetary Resources For the Years Ended September 30, 2009 and 2008 (in Thousands)

	2009	2008
<b>Budgetary Resources:</b>		
Unobligated Balance, Brought Forward, October 1:	\$ 2,549,010	\$ 2,894,905
Recoveries of Prior Year Unpaid Obligations	370,546	485,599
Budget Authority		
Appropriation (Note 23)	13,186,312	11,972,974
Spending Authority From Offsetting Collections		
Earned		
Collected	1,597,806	1,612,125
Change in Receivables From Federal Sources	10,788	(5,886)
Change in Unfilled Customer Orders		
Advance Received	(123)	125
Without Advance From Federal Sources	(91,511)	(34,201)
Expenditure Transfers From Trust Funds	3,154	3,093
Subtotal	14,706,426	13,548,230
Nonexpenditure Transfers, Net	320,603	333,663
Permanently not Available	(278,581)	(86,880)
<b>Total Budgetary Resources</b>	<b>\$ 17,668,004</b>	<b>\$ 17,175,517</b>
<b>Status of Budgetary Resources:</b>		
Obligations Incurred: (Note 22)		
Direct	\$ 13,075,506	\$ 12,862,976
Reimbursable	1,526,522	1,763,531
Subtotal	14,602,028	14,626,507
Unobligated Balance:		
Apportioned	64,021	7,892
Unobligated Balance not Available	3,001,955	2,541,118
<b>Total Status of Budgetary Resources</b>	<b>\$ 17,668,004</b>	<b>\$ 17,175,517</b>
<b>Change in Obligated Balances:</b>		
Obligated Balance, Net		
Unpaid Obligations, Brought Forward, October 1	\$ 5,377,713	\$ 4,069,728
Uncollected Customer Payments From Federal Sources, Brought Forward, October 1	(280,699)	(320,785)
Total Unpaid Obligated Balance, Net	5,097,014	3,748,943
Obligations Incurred, Net	14,602,028	14,626,507
Gross Outlays	(15,039,987)	(12,832,924)
Recoveries of Prior Year Unpaid Obligations, Actual	(370,546)	(485,599)
Change in Uncollected Customer Payments From Federal Sources	80,723	40,087
Obligated Balance, Net End of Period		
Unpaid Obligations	4,569,207	5,377,713
Uncollected Customer Payments From Federal Sources	(199,975)	(280,699)
Total, Unpaid Obligated Balance, Net, End of Period	4,369,232	5,097,014
<b>Net Outlays:</b>		
Gross Outlays	15,039,987	12,832,924
Offsetting Collections	(1,600,837)	(1,615,343)
Distributed Offsetting Receipts	(2,300,029)	(2,633,691)
<b>Total Net Outlays</b>	<b>\$ 11,139,121</b>	<b>\$ 8,583,890</b>

The accompanying notes are an integral part of these financial statements.

# Financial Statements

**U.S. Customs and Border Protection**  
**Consolidated Statements of Custodial Activity**  
**For the Years Ended September 30, 2009 and 2008**  
**(in Thousands)**

	<u>2009</u>	<u>2008</u>
<b>Revenue Activity (Note 27):</b>		
<b>Sources of Cash Collections:</b>		
Duties	\$ 22,633,329	\$ 27,319,994
User Fees	1,165,389	1,514,337
Excise Taxes	2,554,916	2,457,352
Fines and Penalties	61,311	70,770
Interest	17,839	24,038
Miscellaneous	9,739	9,537
<b>Total Cash Collections</b>	<u>26,442,523</u>	<u>31,396,028</u>
Accrual Adjustments (+/-)	<u>(395,310)</u>	<u>128,194</u>
<b>Total Custodial Revenue</b>	<u>\$ 26,047,213</u>	<u>\$ 31,524,222</u>
<b>Disposition of Collections:</b>		
<b>Transferred to Others:</b>		
Treasury General Fund Accounts	\$ 17,345,045	\$ 20,947,673
U.S. Department of Agriculture	7,697,785	8,257,729
Other Federal Agencies	29,629	22,980
Government of Puerto Rico	1,744	12,089
Government of the U.S. Virgin Islands	--	1,613
Refunds and Drawbacks (Note 27)	1,367,487	1,295,705
Non-federal Other	--	856,938
<b>(Increase)/Decrease in Amounts Yet to be Transferred</b>	<u>(394,477)</u>	<u>129,495</u>
<b>Total Disposition of Custodial Revenue</b>	<u>26,047,213</u>	<u>31,524,222</u>
<b>Net Custodial Activity</b>	<u>\$ --</u>	<u>\$ --</u>

The accompanying notes are an integral part of these financial statements.

# Notes to Financial Statements

## 1. Significant Accounting Policies

### Reporting Entity

U.S. Customs and Border Protection (CBP) was created on March 1, 2003, and is a component of the U.S. Department of Homeland Security (DHS). CBP is the unified border agency whose priority mission is the prevention of terrorist and terrorist weapons from entering the United States. In addition to its priority mission, CBP works to protect America and its citizens by carrying out its traditional missions more effectively using innovative approaches. These traditional missions include enforcing United States trade, immigration and other laws at the borders. Trade-related mission activities include protecting American businesses from theft of their intellectual property and unfair trade practices; regulating and facilitating international trade; collecting import duties; enforcing trade laws related to admissibility; regulating trade practices to collect the appropriate revenue; and maintaining export controls. Other traditional missions include controlling the borders by apprehending individuals attempting to enter the United States illegally; stemming the flow of illegal drugs and other contraband; protecting agriculture and economic interests from harmful pests and diseases; processing all people, vehicles and cargo entering the United States; and coordinating with the Department of Defense and others to protect the National Capital Region.

Substantially all of duty, tax, and fee revenues collected by CBP are remitted to various general fund accounts maintained by the U.S. Department of the Treasury (Treasury) and U.S. Department of Agriculture. Treasury further distributes these revenues to other federal agencies in accordance with various laws and regulations. CBP transfers the remaining revenue (generally less than one percent of revenues collected) directly to other federal agencies, the Government of Puerto Rico and the U.S. Virgin Islands. Refunds of revenues collected from import/export activity are recorded in separate accounts established for this purpose and are funded through a permanent indefinite appropriation. These activities reflect the non-entity or custodial responsibilities that CBP, as an agency of the Federal Government, has been authorized by law to enforce.

During Fiscal Year 2009, CBP received funding under the American Recovery and Reinvestment Act. This funding is for the procurement and deployment of non-intrusive inspection systems, tactical communications equipment and radios; expedited development and deployment of border security technology on the Southwest border; and for planning, management, design, alteration and construction of CBP owned land border ports of entry. This funding is available for obligation during FY 2009 and FY 2010.

### Basis of Accounting and Presentation

These financial statements have been prepared from CBP accounting records in conformity with generally accepted accounting principles (GAAP). GAAP for federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board, which was designated the official accounting standard-setting body of the Federal Government by the American Institute of Certified Public Accountants. The statements consist of the Consolidated

# Notes to Financial Statements

Balance Sheet, the Consolidated Statement of Net Cost, the Consolidated Statement of Changes in Net Position, the Combined Statement of Budgetary Resources, and the Consolidated Statement of Custodial Activity. All statements are prepared in accordance with OMB Circular A-136.

These financial statements should be read with the understanding that CBP is a component of a sovereign entity; for which budgetary resources cannot be liquidated without the enactment of an appropriation, and that payment of liabilities other than for contracts can be abrogated by the sovereign entity.

These financial statements, with respect to the Consolidated Balance Sheet, the Consolidated Statement of Net Cost and the Consolidated Statement of Changes in Net Position, are reported using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when a liability is incurred without regard to receipt or payment of cash. The Combined Statement of Budgetary Resources is reported using the budgetary basis of accounting. Budgetary accounting facilitates compliance with legal constraints and controls over the use of federal funds. It generally differs from the accrual basis of accounting in that obligations are recognized when new orders are placed, contracts awarded and services received that will require payments during the same or future period. CBP non-entity revenue and refunds are reported on the Consolidated Statement of Custodial Activity using a modified cash basis. With this method, revenue from cash collections are reported separately from receivable accruals and cash disbursements are reported separately from payable accruals.

In accordance with OMB Circular A-136, intra-CBP transactions and balances have been eliminated from the Consolidated Balance Sheet, Consolidated Statement of Net Cost, and the Consolidated Statement of Changes in Net Position. As provided for by OMB Circular A-136, the Combined Statement of Budgetary Resources is presented on a combined basis; therefore, intra-CBP transactions and balances have not been eliminated from this statement.

## Earmarked Funds

The Statement of Federal Accounting Standards (SFFAS) No. 27, *Identifying and Reporting Earmarked Funds*, requires CBP to separate dedicated collections into two categories, earmarked and fiduciary activity. See Note 18, Earmarked Funds, for specific required disclosures related to CBP’s earmarked funds.

CBP has program management responsibility for the following earmarked funds:

Appropriation	Title
70X5087	CBP - Immigration User Fees
70X5695	Customs User Fees Account
70X5089	Land Border Inspection Fees
70X5451	Enforcement Fines Account
70X5543	International Registered Traveler
70X5694	Small Airport User Fees
70X8870	Harbor Maintenance Fee Collections



# Notes to Financial Statements

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## **Assets and Liabilities**

Intragovernmental assets and liabilities result from activity with other federal agencies. All other assets and liabilities result from activity with parties outside the Federal Government, such as domestic and foreign persons, organizations or governments.

## **Fund Balance with Treasury, Cash and Other Monetary Assets**

Entity Fund Balance with Treasury are the amounts remaining as of September 30, 2009 and 2008 from which CBP is authorized to make expenditures and pay liabilities resulting from operational activity, except as restricted by law. Non-entity Fund Balance with Treasury represents funds available to pay refunds and drawback claims of duties, taxes, fees, and other non-entity amounts to be distributed to the Treasury General Fund and other Federal accounts in a future period.

A timing difference occurs when cash is received and applied to a specific revenue type in one period, and the deposit occurs in a future period. Monetary instruments are held by CBP in lieu of an importer/broker filing a surety bond. Corresponding liabilities are recorded for amounts expected to be allocated in future periods to federal agencies.

## **Advances and Prepayments**

Intragovernmental advances and prepayments consist of amounts paid to federal agencies prior to CBP receipt of goods and services. Advances and prepayments to the public consist primarily of prepaid rent.

## **Accounts Receivable**

Intragovernmental accounts receivable represent amounts due from federal agencies. These receivables are expected to be fully collected. Accounts receivable from reimbursable services and user fees represent amounts due from non-federal sources for services performed. By law, collections of these receivables can be credited to the appropriation accounts from which the related costs were paid. These receivables are net of amounts deemed uncollectible which are determined by considering the debtor's current ability to pay, payment record, as well as the probable recovery of amounts from secondary sources, such as sureties, and an analysis of aged receivable activity. The user fee receivable is based on a calculated estimate using historical user fee receivables.

Title 19 of the United States Code, chapter 1, section 58c, authorizes CBP, formerly known as the United States Customs Service, to collect user fees for services provided in connection with the processing of commercial air and commercial vessel passengers, loaded or partially loaded railroad cars carrying passengers or commercial flights arriving into the customs territory as defined in general note 2 of the Harmonized Tariff Schedule of the United States (some exceptions apply).

# Notes to Financial Statements

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Receivables accrue for commercial airline and commercial vessel fees on a quarterly basis and the payments are due to CBP within thirty-one days after the close of the calendar quarter in which the fees are collected. Railroad car fees accrue on a monthly basis and the payments are due to CBP on or before the date that is 60 days after the applicable month.

Title 8 of the United States Code, chapter 12, subchapter II, part IX, section 1356 authorizes CBP, to collect immigration user fees for inspection or pre-inspection of passengers arriving at a port of entry in the United States (as defined in Title 8, chapter 12, subchapter I, section 1101) aboard a commercial aircraft and commercial vessel (some exceptions apply). Receivables accrue for commercial airline and commercial vessel user fees on a quarterly basis. Payment is due any time within thirty-one days after the quarter in which the fees are collected, except the July and August fees collected from airline passengers shall be made ten days before the end of the fiscal year. The first quarter payment shall include any collections made in the preceding quarter that were not remitted with the previous payment.

## **Receivable Due from Treasury and Due to the Treasury General Fund**

The Receivable Due from Treasury represents amounts to be provided by Treasury to fund accrued liabilities of duty, tax and/or fee refunds and drawbacks. Due to the Treasury General Fund is the offsetting liability to non-entity collections and non-entity receivables.

## **Taxes, Duties and Trade Receivables**

Accounts receivable consist of duties, user fees, fines and penalties, refunds and drawback overpayments, and interest associated with import/export activity, which have been established as a specifically identifiable, legally enforceable claim which remain uncollected as of year-end. These receivables are net of amounts deemed uncollectible which were determined by considering the debtor's payment record and willingness to pay, the probable recovery of amounts from secondary sources, such as sureties, and an analysis of aged receivable activity. CBP's non-entity receivables are described in more detail in Note 6, Taxes Duties and Trade Receivables, Net.

## **Inventory and Related Property**

Inventory and Related Property consist of aircraft and marine operating materials and supplies to be used in CBP's operations. Aircraft parts and materials are recorded at average unit cost, and marine parts and materials are recorded using the First-In-First-Out valuation method. Both methods approximate actual acquisition costs. When ultimately used in CBP operations, an operating expense is recorded.

# Notes to Financial Statements

## Seized and Forfeited Property

Prohibited seized and forfeited property results primarily from CBP criminal investigations and passenger/cargo processing. Seized property is not considered an asset of CBP and is not reported as such in CBP's financial statements; however, CBP has a stewardship responsibility until disposition of the seized items are determined. Non-prohibited seized property, including monetary instruments, real property and tangible personal property of others in the actual or constructive possession of CBP will be transferred to the Treasury Forfeiture Fund and is not presented in the accompanying CBP Consolidated Balance Sheet or Note 8, Seized and Forfeited Property.

Forfeited property is property for which the title has passed to the U.S. Government. As noted above, non-prohibited forfeited property or currency becomes assets of the Treasury Forfeiture Fund. However, prohibited forfeited items, such as counterfeit goods, narcotics, or firearms, are held by CBP until disposed or destroyed. In accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 3, *Accounting for Inventory and Related Property*, analysis of changes in seized and forfeited property of prohibited items are disclosed in Note 8, Seized and Forfeited Property.

## General Property, Plant and Equipment

CBP capitalizes property, plant and equipment with an acquisition value of \$50 thousand or greater, and a useful life of 2 years or greater. The property, plant, and equipment assets acquired by CBP from the former Immigration and Naturalization Service as part of the formation of the Department of Homeland Security were capitalized if the acquisition value was \$25 thousand or greater.

Expenditures for normal repairs and maintenance are charged to expense as incurred. Expenditures greater than \$50 thousand for improving or rebuilding an asset and increases an asset's useful life are capitalized.

Depreciation and amortization are computed using the straight line method over the estimated useful lives of the assets ranging from 2 to 30 years for equipment and software, 2 to 30 years for leasehold improvements, and 6 to 40 years for buildings, structures and land improvements. Amortization of capitalized software begins on the date of acquisition if purchased or when the module or component has been successfully tested if contractor or internally developed.

## Commercial/Travel Payable

A liability is recorded for an accounts payable accrual from commercial/travel activities. A portion of this liability is determined using a calculated estimate. This estimate is based on a ratio developed using historical subsequent disbursements and undelivered orders and applying the ratio to the undelivered orders as of September 30, 2009 and 2008.

# Notes to Financial Statements

## **Other Non-Entity Items in CBP Custody**

CBP has the authority, in accordance with provisions of the Federal Crime Code and Federal Rules of Criminal Procedures, to retain property within its custody for evidentiary purposes. Because this property is not seized under seizure and forfeiture laws, it cannot become property of the U.S. Government and is intended to be returned to the owner at some future date. This evidence is not disclosed in the financial statements or a related note as the amount is not significant, but does represent a fiduciary responsibility of CBP.

## **Accrued Annual, Sick and Other Leave and Compensatory Time**

Annual leave, compensatory time and other leave time are accrued when earned. The accrual is presented as a component of the payroll and benefits liability in the Consolidated Balance Sheet and is adjusted for changes in compensation rates and reduced for annual leave taken. Sick leave is not accrued when earned, but is expensed when taken. For additional information see Note 13, Accrued Payroll and Benefits.

## **Pension Costs, Other Retirement Benefits and Other Post-Employment Benefits**

Most CBP employees hired prior to January 1, 1984 participate in the Civil Service Retirement System (CSRS). CBP contributes 7 percent of base pay for regular employees, and 7.5 percent for law enforcement agents. Employees hired after December 31, 1983 are automatically covered by the Federal Employees' Retirement System (FERS) and Social Security. A primary feature of FERS is that it offers a savings plan to which CBP automatically contributes 1 percent of base pay and matches any employee contributions up to an additional 4 percent of base pay. For most employees hired after December 31, 1983, CBP also contributes the employee's matching share for Social Security. For the FERS basic benefit CBP contributes 11.2 percent of base pay for regular employees and 24.9 percent for law enforcement agents. The pay base for determining CBP contributions, to CSRS and FERS for inspectors and canine officers include regular pay and up to a maximum of \$17.5 thousand in certain overtime earnings for FY 2009 and 2008. CBP recognizes the full costs of its employees' pension benefits; however, the liability associated with these costs is recognized by the Office of Personnel Management (OPM).

Similar to Federal retirement plans, OPM, rather than CBP, reports the liability for future payments to retired employees who participate in the Federal Employees Health Benefits Program and the Federal Employees Group Life Insurance Program.

A liability for other post-employment benefits, which includes all types of benefits to former or inactive (but not retired) employees, their beneficiaries, and covered dependents, is also recognized. For additional information see Note 13, Accrued Payroll and Benefits.

# Notes to Financial Statements

## Workers' Compensation

A liability is recorded for actual and estimated future payments to be made for workers' compensation pursuant to the Federal Employees' Compensation Act (FECA). The actual liability is presented as a component of intragovernmental other liabilities and the actuarial liability is presented as Federal Employee and Veterans Benefits in the accompanying Consolidated Balance Sheet. The FECA program is administered by the U.S. Department of Labor (DOL), which initially pays valid claims and subsequently seeks reimbursement from federal agencies employing the claimants. Reimbursement to DOL on payments made usually occurs approximately two years subsequent to the actual disbursement. Budgetary resources for this intragovernmental liability are made available to CBP as part of its annual appropriation from Congress in the year in which the reimbursement takes place.

Additionally, the actuarial liability due to the public includes the expected liability for death, disability, medical and miscellaneous costs for approved compensation cases. The liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. Based on information provided by DOL, DHS allocates the actuarial liability to its components and department offices based on the payment history for the components and department offices. The accrued liability is not covered by budgetary resources and will require future funding.

## Unexpended Appropriations

Unexpended appropriations represent the amount of CBP unexpended appropriated spending authority as of fiscal year-end that is unliquidated or is unobligated and has not lapsed, been rescinded or withdrawn.

## Cumulative Results of Operations

Cumulative Results of Operations primarily represent the excess of user fee revenues over related expenses. It also reflects the net investment in Property, Plant and Equipment, Inventory and Related Property held for use, and transfers in of equipment, materials and supplies from other federal agencies without reimbursement. Also, included as a reduction in Cumulative Results of Operations, are liabilities incurred, which will require funding from future appropriations, such as accumulated annual and other leave earned but not taken, accrued workers' compensation and contingent liabilities. The portion of Cumulative Results of Operations attributable to earmarked funds is shown separately on both the Consolidated Statement of Changes in Net Position and the Consolidated Balance Sheet. For additional information see Note 18, Earmarked Funds.

## Revenue, Financing Sources and Expense Recognition

CBP entity activities are financed principally through appropriations, exchange revenue and non-exchange revenue. Appropriations used are recognized as a financing source when expenses are incurred or assets are purchased. Exchange revenues from reimbursable services and intragovernmental reimbursable activity are recognized as

# Notes to Financial Statements

earned when the goods or services are provided and reflect the full cost of the goods or services provided. Non-exchange revenue from user fees is recognized as earned in accordance with the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended. CBP may retain the user fee revenues and expend them as authorized by law for CBP inspector overtime and other activities directly related to the services to which the fees relate. An imputed financing source is also recognized to offset costs incurred by CBP but funded by another federal source, generally in the period in which the cost was incurred. Expenses are recognized when goods or services are received, when inventory is used, or assets are depreciated or amortized.

The FY 2009 and 2008 activities reported on the Consolidated Statements of Net Cost contain all resource costs assigned from CBP cost centers. All field operational cost centers were surveyed for time spent in the Passenger Processing, Trade Compliance, Outbound Operations and field Mission Support activities. For enforcement operational cost centers, the time spent in the activities was extracted from the Customs Electronic Data Warehouse. Time reported by the field and enforcement operational cost centers is also used to assign mission support and overhead costs to “front-line” activities.

Non-entity Revenue is recognized when the cash CBP is entitled to collect on behalf of the Federal Government is received. Primarily, these revenue collections result from current fiscal year activities. The significant types of revenues collected and related disbursements are described below:

- **Duties:** amounts collected on imported goods.
- **User fees:** amounts collected for certain services as provided by law.
- **Excise taxes:** amounts collected on imported distilled spirits, wines and tobacco products, and other miscellaneous taxes collected on behalf of the Federal Government.
- **Fines and penalties:** amounts collected for violations of laws and regulations.
- **Refunds:** payments made to importers/exporters are primarily identified when the import entries are liquidated, a process in which CBP makes final determination of duties, taxes, fees and interest owed on each entry and compares it to the estimated amount previously determined and paid by the importer/broker. Interest is included in the refund generally for the period of time between when the estimated amounts were received from the importer/broker and the time the entry is liquidated. When a refund is identified prior to liquidation, the refund from this remittance is funded from the duty, tax or fee collections rather than from the Refunds and Drawback Account.
- **Drawback:** a remittance, in whole or in part, of duties, taxes or fees. Drawback typically occurs when the imported goods on which duties, taxes or fees have been previously paid are subsequently exported from the United States or destroyed prior to entering the commerce of the United States. Depending on the type of claim, the claimant has up to six or eight years from the date of importation to file for drawback.

A financing source for refunds and drawback is recognized when payment is made. The financing source, representing the permanent, indefinite appropriation account used to fund the disbursement, is recorded as a decrease in the amount transferred to Treasury General Fund Accounts reported on the Statement of Custodial Activity.

# Notes to Financial Statements

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An accrual adjustment is included to adjust cash collections and refund disbursements with the net increase or decrease of accrued Non-entity Accounts Receivables, net of uncollectible amounts and refunds payable. CBP will also take into custody, without risk or expense, merchandise termed “general order property” which for various reasons cannot legally enter into the commerce of the United States. CBP’s sole responsibility for the general order property is to ensure the property does not enter into U.S. commerce. If general order property remains in CBP custody for a prescribed period of time, without payment of all estimated duties, storage and other charges, the property is considered unclaimed and abandoned and can be sold by CBP at public auction. Auction sales revenue in excess of charges associated with the sale or storage of the item is remitted to the Treasury General Fund. In some cases, CBP incurs charges prior to the sale and funds these costs from entity appropriations. Regulations permit CBP to offset these costs of sale before returning excess amounts to Treasury. Proceeds from the sale of general order property totaled \$4.2 million and \$4.5 million for the years ended September 30, 2009 and 2008, respectively. Excess amounts returned to the Treasury General Fund totaled \$275 thousand and \$372 thousand for the years ended September 30, 2009 and 2008, respectively.

## Use of Estimates

Management has made certain estimates and assumptions in the reporting of assets, liabilities and note disclosures in the Consolidated Balance Sheet, the Consolidated Statement of Net Cost, the Consolidated Statement of Changes in Net Position, the Combined Statement of Budgetary Resources, the Consolidated Statement of Custodial Activity and accompanying notes. Actual results could differ from these estimates. Significant estimates include: year-end accruals of accounts payable, contingent legal and environmental liabilities, accrued workers’ compensation, allowance for doubtful accounts receivable, retirement and post-retirement benefits assumptions and certain non-entity receivables and payables related to custodial activities.

## Taxes

CBP, as a federal component, is not subject to federal, state or local income taxes and accordingly, no provision for income taxes has been recorded in the accompanying financial statements.



# Notes to Financial Statements

## 2. Non-Entity Assets

Non-entity assets as of September 30, 2009 and 2008, consist of the following (in thousands):

	2009	2008
<b>Intragovernmental:</b>		
Fund Balance with Treasury (Note 3)	\$ 934,204	\$ 858,130
Receivables Due from Treasury (Note 5)	--	151,177
Total Intragovernmental	934,204	1,009,307
<b>Public</b>		
Accounts Receivable, Net	368	1,237
Cash and Other Monetary Instruments (Note 4)	2,962	6,336
Taxes Duties and Trade Receivables, Net (Note 6)	1,873,702	2,078,012
Property, Plant and Equipment, Net	--	2,097
Total Public	1,877,032	2,087,682
<b>Total Non-entity Assets</b>	2,811,236	3,096,989
<b>Total Entity Assets</b>	12,407,426	10,971,924
<b>Total Assets</b>	<u>\$ 15,218,662</u>	<u>\$ 14,068,913</u>

Non-entity Fund Balance with Treasury as of September 30, 2009 and 2008 includes approximately \$104.6 million and \$144.7 million (in deposit fund) in duties collected by CBP for unliquidated anti-dumping/countervailing duties and \$696.8 million and \$705.3 million for Injured Domestic Industries as of September 30, 2009 and 2008, respectively. These assets offset accrued liabilities as of September 30, 2009 and 2008.

Non-entity Fund Balance with Treasury consists of special and deposit funds, permanent appropriations, and miscellaneous receipts that are available to pay non-entity liabilities. Non-entity Receivables Due from Treasury represent an estimate of duty, tax, and/or fee refunds and drawbacks that will be reimbursed by a permanent and indefinite appropriation account. Taxes Duties and Trade receivables from the public represent amounts due from importers for goods and merchandise imported to the United States and, upon collection, will be available to pay the accrued intragovernmental liability Due to the Treasury General Fund, which equaled \$2.0 billion and \$2.4 billion as of September 30, 2009 and 2008.

# Notes to Financial Statements

## 3. Fund Balance with Treasury

Fund Balance with Treasury as of September 30, 2009 and 2008 consists of the following (in thousands):

<b>2009</b>	<b>Entity</b>	<b>Non-Entity</b>	<b>Totals</b>
Trust Funds	\$ 5,589	\$ --	\$ 5,589
Special Funds	866,842	696,784	1,563,626
General Funds	5,747,091	132,842	5,879,933
Deposit Funds	1,453	104,578	106,031
<b>Totals</b>	<b>\$ 6,620,975</b>	<b>\$ 934,204</b>	<b>\$ 7,555,179</b>

<b>2008</b>	<b>Entity</b>	<b>Non-Entity</b>	<b>Totals</b>
Trust Funds	\$ 4,987	\$ --	\$ 4,987
Special Funds	950,817	705,263	1,656,080
General Funds	5,990,578	8,210	5,998,788
Deposit Funds	2,269	144,657	146,926
<b>Totals</b>	<b>\$ 6,948,651</b>	<b>\$858,130</b>	<b>\$ 7,806,781</b>

Trust funds are both receipt accounts and expenditure accounts that are designated by law as a trust fund. The entity trust fund balances result from CBP authority to use the proceeds from general order items sold at auction to offset specific costs incurred by CBP relating to their sale, and to use available funds from the Harbor Maintenance Fee Trust Fund to offset administrative expenses related to the collection of the Harbor Maintenance Fee.

Special funds are receipt funds used for specific purposes. Entity amounts comprising the special fund balances result from CBP authority to assess and collect passenger and conveyance-related user fees, CBP authority to assess and collect fees associated with services performed at certain small airports or other facilities, and CBP authority to retain amounts needed to offset costs associated with collecting duties, taxes, and fees for the Government of Puerto Rico. As of September 30, 2009 and 2008, CBP User Fees Account contained approximately \$732.4 million and \$767.7 million, respectively; CBP Services at Small Airports account contained approximately \$14.7 million and \$12.8 million, respectively; Refunds, Transfers and Expenses of Operation of Puerto Rico account contained approximately \$31 million and \$39.3 million, respectively; and Immigration user fees of \$84 million and \$128.5 million, respectively. Non-entity fund balance includes monies received in connection with antidumping and countervailing duty orders and findings to qualifying Injured Domestic Industries of \$696.8 million and \$705.3 million as of September 30, 2009 and 2008, respectively.

General funds consist of amounts appropriated annually by Congress to fund the operations of CBP. The non-entity general fund balance represents permanent, indefinite appropriations to pay refunds and drawback claims of duties, taxes, or fees. The balance is presented as a non-entity balance because the refund and drawback payments are associated with CBP custodial activity of collecting revenue on behalf of the Federal Government.

The entity deposit fund balance represents amounts received as an advance that are not accompanied by an order. Once the order is received the deposit fund balance is decreased. Deposit funds represent amounts received as an advance that are not accompanied by an order and include non-entity collections.

# Notes to Financial Statements

Status of Fund Balance with Treasury as of September 30, 2009 and 2008 consists of the following (in thousands):

<b>2009</b>	<b>Entity</b>	<b>Non-Entity</b>	<b>Totals</b>
Unobligated Balance			
Available	\$ 63,840	\$ --	\$ 63,840
Unavailable	2,305,172	696,783	3,001,955
Obligated Balance not yet Disbursed	4,242,775	126,457	4,369,232
Non-Budgetary FBWT	9,188	110,964	120,152
<b>Totals</b>	<b>\$ 6,620,975</b>	<b>\$ 934,204</b>	<b>\$ 7,555,179</b>

<b>2008</b>	<b>Entity</b>	<b>Non-Entity</b>	<b>Totals</b>
Unobligated Balance			
Available	\$ 7,892	\$ 858,130	\$ 866,022
Unavailable	1,116,847	--	1,116,847
Obligated Balance not yet Disbursed	5,104,904	--	5,104,904
Restricted Unobligated Funds	719,008	--	719,008
<b>Totals</b>	<b>\$ 6,948,651</b>	<b>\$ 858,130</b>	<b>\$ 7,806,781</b>

FY08 amounts reported as Unobligated Balance Unavailable and Obligated Balance not yet Disbursed will not match amounts reported on the Combined Statement of Budgetary Resources due to CBP reporting all Non-entity Fund Balance with Treasury amounts as Unobligated Balance Available. Effective for FY09 the non-entity Fund Balance with Treasury amounts were classified as Unobligated Balance Unavailable, Obligated Balance not yet Disbursed and Non-budgetary FBWT.

Portions of the Unobligated Balance Unavailable include amounts appropriated in prior fiscal years that are not available to fund new obligations. However, it can be used for upward and downward adjustments for existing obligations in future years.

The Obligated Balance not yet Disbursed represents amounts designated for payment of goods or services ordered, but not received, or goods and services received but for which payment has not yet been made.

CBP returned to Treasury \$192.4 million and \$31.2 million for indefinite no-year authority and retained \$126.9 million and \$1.7 million in authority for obligations pursuant to public law during both the years ending September 30, 2009 and 2008.

In accordance with Public Law 101-510, CBP is required to automatically cancel obligated and unobligated balances of appropriated funds five years after a fund expires. Obligations that have not been paid at the time an appropriation is canceled may be paid from an unexpired appropriation that is available for the same general purpose. As of September 30, 2009, CBP canceled \$86.2 million from FY 2004 annual appropriations, of which \$21.8 million was deobligated. As of September 30, 2008, CBP canceled \$28.1 million from FY 2003 annual appropriations, of which \$31.4 million was deobligated. Based on historical activity CBP estimates obligations related to canceled appropriations that will be paid from future appropriations, would not exceed \$1 million in any fiscal year.

# Notes to Financial Statements

## 4. Cash and Other Monetary Instruments

Cash and Other Monetary Instruments as of September 30, 2009 and 2008, consist of the following (in thousands):

2009	Entity	Non-Entity	Totals
Imprest Funds	\$ 181	\$ --	\$ 181
Undeposited Collections	2,049	2,362	4,411
Monetary Instruments	--	600	600
<b>Totals</b>	<b>\$ 2,230</b>	<b>\$ 2,962</b>	<b>\$ 5,192</b>

2008	Entity	Non-Entity	Totals
Imprest Funds	\$ 147	\$ --	\$ 147
Undeposited Collections	443	5,636	6,079
Monetary Instruments	--	700	700
<b>Totals</b>	<b>\$ 590</b>	<b>\$ 6,336</b>	<b>\$ 6,926</b>

Undeposited collection balances represent timing differences between when cash relating to duties, taxes, fees, and other trade related collections are received and the deposit occurs in a future period. Cash can either be distributed to the General Fund, other federal agencies, other governments, or returned to the importer/broker. The monetary instruments represent instruments importers/brokers provide to CBP in lieu of obtaining surety bonds.

## 5. Accounts Receivable, Net

### Receivables Due from Treasury – Refund and Drawback

Non-entity Receivables Due from Treasury represent an estimate of duty, tax and/or fee refunds and drawbacks that will be reimbursed by a permanent and indefinite appropriation account and will be used to pay estimated duty refunds and drawbacks of \$0 million and \$151.2 million, as of September 30, 2009 and 2008, respectively.

### Accounts Receivable with Public, Net

As of September 30, 2009 and 2008 Accounts receivable with the public includes reimbursable service receivables totaling \$8.2 million and \$5.6 million respectively, and are considered fully collectible; Customs user fee receivables total \$98.8 million and \$103.4 million, and are net of uncollectible amounts totaling \$2.3 million and \$2.8 million respectively; Immigration user fee receivables totals \$73.5 million and \$68.6 million, and are net of uncollectible amounts totaling \$15.1 million and \$23.1 million respectively.

# Notes to Financial Statements

## 6. Taxes, Duties and Trade Receivables, Net

Receivables as of September 30, 2009 and 2008 are as follows (in thousands):

Receivable Category	2009		
	Gross Receivable	Amounts Uncollectible	Total Net Receivables
Duties	\$ 1,649,664	\$ (146,167)	\$ 1,503,497
Excise Taxes	105,481	(5,774)	99,707
User Fees	117,151	(6,971)	110,180
Fines/Penalties	521,194	(471,846)	49,348
Interest	291,084	(251,234)	39,850
Anti-dumping/Countervailing Duties	420,950	(349,904)	71,046
Refunds and Drawback	448	(374)	74
<b>Totals</b>	<b>\$ 3,105,972</b>	<b>\$ (1,232,270)</b>	<b>\$ 1,873,702</b>

Receivable Category	2008		
	Gross Receivable	Amounts Uncollectible	Total Net Receivables
Duties	\$ 1,841,687	\$ (127,777)	\$ 1,713,910
Excise Taxes	98,978	(5,830)	93,148
User Fees	144,799	(4,416)	140,383
Fines/Penalties	773,692	(732,576)	41,116
Interest	222,699	(198,717)	23,982
Anti-dumping/Countervailing Duties	310,097	(244,700)	65,397
Refunds and Drawback	453	(377)	76
<b>Totals</b>	<b>\$ 3,392,405</b>	<b>\$ (1,314,393)</b>	<b>\$ 2,078,012</b>

CBP assesses duties, taxes and fees on goods and merchandise brought into the United States from foreign countries. At the time importers bring merchandise into the United States, they are required to file CBP entry documents. Generally, within 10 working days after CBP releases the merchandise into the U.S. commerce, the importer is to submit an entry document with payment of estimated duties, taxes and fees. CBP allows periodic monthly payment that requires payment of estimated duties, taxes and fees on the 15th work day of the month following release. A receivable of \$1.7 billion and \$1.9 billion was recorded for 844,316 entries and 923,774 entries for merchandise released into commerce on or before September 30, 2009 and 2008, respectively. There were an additional 3,012 entries and 3,900 entries for merchandise released into commerce on or before September 30, 2009 and 2008, respectively, for which a receivable amount could not be determined because the entry summary documentation describing the type, quantity, and value of the merchandise had not been received from the importers. It is CBP's policy to track and demand payment of unpaid estimated duties, taxes and fees receivable amounts by establishing a liquidated damage case which generally results in a fine and penalty type receivable.

A fine or penalty is established when a violation of import/export law is discovered. CBP assesses a liquidated damage or penalty for these cases to the maximum extent of the law. After receiving the notice of assessment, the importer or surety has 60 days to either file a petition requesting a review of the assessment or make payment of the assessed amount. Until this process has been completed, CBP records an allowance on fines and penalties of approximately 90.5 percent of the total assessment based on historical experience of fines and penalties mitigation.

# Notes to Financial Statements

and collection. Duties and taxes receivable are non-entity assets for which there is an offsetting liability due to the Treasury General Fund.

## 7. Inventory and Related Property, Net

### Operating Materials and Supplies

Operating Materials and Supplies consist of parts and materials to repair and maintain CBP aircraft and vessels used in enforcement activities. CBP defines operating materials and supplies categorized as “Excess, Obsolete, and Unserviceable” to consist of items that are no longer useable on CBP aircraft as well as items that are useable on CBP aircraft after repair. CBP does not currently hold operating materials and supplies in reserve for future use.

Operating Materials and Supplies as of September 30, 2009 and 2008 consist of the following (in thousands):

	<b>2009</b>	<b>2008</b>
Aircraft		
Items Held for Use	\$ 94,166	\$ 86,167
Excess, Obsolete, and Unserviceable Items	7,616	8,305
Total Aircraft	101,782	94,472
Vessels	11,990	8,253
<b>Totals</b>	<b>\$ 113,772</b>	<b>\$ 102,725</b>

## 8. Seized and Forfeited Property

This schedule is presented for material categories of prohibited (non-valued) seized and forfeited property only. These items are retained and ultimately destroyed by CBP and are not transferred to the Department of the Treasury Forfeiture Fund or other federal agencies. The ending balance for firearms includes only those seized items that can actually be used as firearms. Illegal drugs are presented in kilograms and a portion of the weight includes packaging, which often cannot be reasonably separated from the weight of the drugs since the packaging must be maintained for evidentiary purposes. Firearms and pornography are presented in number of cases.

# Notes to Financial Statements

## Analysis of Changes in Prohibited (Non-Valued) Seized Property, September 30, 2009

Category	Unit of Measurement	Balance October 1	New Seizures	Remissions	New Forfeitures	Adjustments (1)	Balance September 30
<b>Illegal Drugs</b>							
Cannabis (marijuana)	Kilograms	1,037	1,062,594	0	(1,065,252)	2,784	1,163
Cocaine	Kilograms	215	26,012	0	(26,428)	375	174
Heroin	Kilograms	8	1,556	0	(1,558)	(1)	5
Ecstasy	Kilograms	33	1,147	0	(1,146)	0	34
Steroids	Kilograms	145	326	0	(364)	(10)	97
<b>Firearms</b>	Number of Cases	873	1,651	(303)	(784)	(58)	1,379
<b>Pornography</b>	Number of Cases	43	74	(3)	(58)	0	56

(1) Adjustments are caused by changes during the year to the beginning balances of cases. An example includes changes in the quantity from the amount reported in the beginning balance, or a discontinuance of a case prior to forfeiture. Also, a prior year case can change legal status or property type. For example, a case considered forfeited could be re-opened and changed to seized status or a drug property type may change on a case.

## Analysis of Changes in Prohibited (Non-Valued) Seized Property, September 30, 2008

Category	Unit of Measurement	Balance October 1	New Seizures	Remissions	New Forfeitures	Adjustments (1)	Balance September 30
<b>Illegal Drugs</b>							
Cannabis (marijuana)	Kilograms	3,254	691,151	0	(694,570)	1,202	1,037
Cocaine	Kilograms	186	19,924	0	(19,876)	(19)	215
Heroin	Kilograms	20	5,866	0	(5,878)	0	8
Ecstasy	Kilograms	33	1,114	0	(1,145)	31	33
Steroids	Kilograms	136	393	(10)	(378)	4	145
<b>Firearms</b>	Number of Cases	1,130	1,444	(870)	(742)	(89)	873
<b>Pornography</b>	Number of Cases	76	96	(5)	(87)	(37)	43

(1) Adjustments are caused by changes during the year to the beginning balances of cases. An example includes changes in the quantity from the amount reported in the beginning balance, or a discontinuance of a case prior to forfeiture. Also, a prior year case can change legal status or property type. For example, a case considered forfeited could be re-opened and changed to seized status or a drug property type may change on a case.



# Notes to Financial Statements

## Analysis of Changes in Prohibited (Non-Valued) Forfeited Property, September 30, 2009

Category	Unit of Measurement	Balance October 1 (1)	New Forfeitures	Transfers	Destroyed	Adjustments (1)	Balance September 30
<b>Illegal Drugs</b>							
Cannabis (marijuana)	Kilograms	116,600	1,065,252	(1,833)	(525,453)	(528,514)	126,052
Cocaine	Kilograms	35,374	26,428	(212)	(24,057)	(18,496)	19,037
Heroin	Kilograms	7,066	1,558	(48)	(1,374)	(4,932)	2,270
Ecstasy	Kilograms	1,575	1,146	0	(1,145)	(159)	1,417
Steroids	Kilograms	42	364	0	(368)	1	39
<b>Firearms</b>	Number of Cases	408	784	(773)	(7)	0	412
<b>Pornography</b>	Number of Cases	27	58	0	(70)	1	16

(1) Adjustments are caused by changes during the year to the beginning balances of cases. An example includes changes in the quantity from the amount reported in the beginning balance. Also, a prior year case can change legal status or property type. For example, a case considered forfeited could be re-opened and changed to seized status or a drug property type may change on a case.

## Analysis of Changes in Prohibited (Non-Valued) Forfeited Property, September 30, 2008

Category	Unit of Measurement	Balance October 1	New Forfeitures	Transfers	Destroyed	Adjustments (1)	Balance September 30
<b>Illegal Drugs</b>							
Cannabis (marijuana)	Kilograms	172,395	694,570	(1,943)	(508,918)	(239,504)	116,600
Cocaine	Kilograms	21,564	19,876	(281)	(20,803)	15,018	35,374
Heroin	Kilograms	6,592	5,878	(11)	(1,790)	(3,603)	7,066
Ecstasy	Kilograms	1,867	1,145	(100)	(1,231)	(106)	1,575
Steroids	Kilograms	13	378	0	(355)	6	42
<b>Firearms</b>	Number of Cases	348	742	(732)	(8)	58	408
<b>Pornography</b>	Number of Cases	29	87	0	(112)	23	27

(1) Adjustments are caused by changes during the year to the beginning balances of cases. An example includes changes in the quantity from the amount reported in the beginning balance. Also, a prior year case can change legal status or property type. For example, a case considered forfeited could be re-opened and changed to seized status or a drug property type may change on a case.

# Notes to Financial Statements

## 9. General Property, Plant and Equipment, Net

Property, Plant and Equipment as of September 30, 2009 and 2008 consist of the following (in thousands):

Categories	Useful Life (in years)	2009		
		Acquisition Cost	Accumulated Depreciation/ Amortization	Net Book Value
Land and Land Rights	N/A	\$ 129,271	\$ --	\$ 129,271
Improvements to Land	6-40	1,219,088	(73,446)	1,145,642
Construction in Progress	N/A	1,438,094	--	1,438,094
Buildings, Other Structures and Facilities	6-40	952,375	(158,300)	794,075
Equipment:				
ADP Equipment	5	396,135	(253,796)	142,339
Aircraft	12-20	1,005,541	(568,922)	436,619
Vessels	5-30	32,217	(14,400)	17,817
Vehicles	3-8	410,141	(290,310)	119,831
Other Equipment	5-15	1,003,938	(627,115)	376,823
Assets Under Capital Lease	2-10	9,485	(9,485)	--
Leasehold Improvements	2-30	306,620	(85,054)	221,566
Internal Use Software	5	822,768	(624,137)	198,631
Internal Use Software-in Development	N/A	184,947	--	184,947
<b>Totals</b>		<u>\$ 7,910,620</u>	<u>\$ (2,704,965)</u>	<u>\$ 5,205,655</u>

Categories	Useful Life (in years)	2008		
		Acquisition Cost	Accumulated Depreciation/ Amortization	Net Book Value
Land and Land Rights	N/A	\$ 82,687	\$ --	\$ 82,687
Improvements to Land (a)	6-40	379,500	(70,715)	308,785
Construction in Progress (b)	N/A	999,957	--	999,957
Buildings, Other Structures and Facilities	6-40	837,013	(137,872)	699,141
Equipment:				
ADP Equipment	5	329,937	(206,702)	123,235
Aircraft	12-20	890,104	(526,562)	363,542
Vessels	5-30	22,727	(13,965)	8,762
Vehicles	3-8	383,477	(285,091)	98,386
Other Equipment	5-15	863,518	(499,428)	364,090
Assets Under Capital Lease	2-10	9,568	(9,568)	--
Leasehold Improvements	2-30	216,964	(61,385)	155,579
Internal Use Software	5	694,877	(543,889)	150,988
Internal Use Software-in Development	N/A	152,945	--	152,945
<b>Totals</b>		<u>\$ 5,863,274</u>	<u>\$ (2,355,177)</u>	<u>\$ 3,508,097</u>

(a) Increase from FY 2008 relates to the completion of fence segments on the U.S. southern border.

(b) Includes \$1.1 billion related to the construction of tactical infrastructure and virtual fencing along the U.S. southern border.

# Notes to Financial Statements

## 10. Stewardship PP&E

CBP's Stewardship PP&E is comprised of heritage assets located in the United States, including the Commonwealth of Puerto Rico. CBP aggregates its personal property heritage assets as collection of documents and artifacts and reflects its multi-use heritage assets as number of physical units. Information related to heritage assets at September 30 consisted of the following:

Categories	2009				
	Beginning Balance	Additions	Withdrawals	Adjustments	Total
Collection-type Assets*					
Documents	--	--	--	1	1
Artifacts	--	--	--	1	1
Multi-use Heritage Assets	4	--	--	--	4
Total Stewardship PP&E	4	--	--	2	6

\* CBP did not report collection-type assets prior to FY 2009.

CBP possesses a wide range of documents and artifacts which are unique due to historical, cultural, artistic, or architectural significance. These assets are used to preserve and to provide education on CBP's history and tradition. Documents consist of dated tariff classifications, CBP regulations, ledgers of Collectors of Customs, and Custom pamphlets. Artifacts include antique scales, dated pictures of Customs Inspectors, aged tools used to sample imported commodities such as wood bales and bulk grain, and dated Customs uniforms, badges, and stamps.

As of September 30, 2009 and 2008, CBP maintains four customs houses, designated as multi-use heritage assets, located in Puerto Rico valued at \$534 thousand which are fully depreciated. All multi-use heritage assets are reflected on the Consolidated Balance Sheet. Deferred maintenance and condition information for heritage assets are presented in the required supplementary information.

## 11. Advances and Prepayments

Intragovernmental advances and prepayments as of September 30, 2009 and 2008, totaling \$253.8 million and \$219.4 million respectively, consist primarily of advances to UNICOR for vehicle purchases.

Advances and prepayments with the public as of September 30, 2009 and 2008, totaling \$0.7 million and \$0.3 million respectively, consist of employee travel and salary advances and prepaid rent.

# Notes to Financial Statements

## 12. Liabilities Not Covered by Budgetary Resources

Liabilities Not Covered by Budgetary Resources as of September 30, 2009 and 2008, consist of the following (in thousands):

	2009	2008
<b>Intragovernmental:</b>		
Accrued FECA Liability	\$ 149,144	\$ 138,021
Other Unfunded Employment Liability	872	--
Total Intragovernmental	150,016	138,021
<b>Public:</b>		
Accrued Payroll and Benefits:		
Accrued Leave (Note 13)	329,376	295,380
Actuarial FECA Liability (Note 13)	715,033	681,664
Environmental and Disposal Liabilities (Note 14)	13,334	12,769
Legal Contingent Liabilities	73,002	46,559
Software License Agreements (Note 16)	16,894	32,737
<b>Total Public</b>	<b>1,147,639</b>	<b>1,069,109</b>
<b>Total Liabilities not Covered by Budgetary Resources</b>	<b>1,297,655</b>	<b>1,207,130</b>
<b>Total Liabilities Covered by Budgetary Resources or Non-Entity Assets</b>	<b>4,036,518</b>	<b>4,522,064</b>
<b>Total Liabilities</b>	<b>\$ 5,334,173</b>	<b>\$ 5,729,194</b>

Liabilities not covered by budgetary or other resources represent amounts owed in excess of available appropriated or other amounts. The liquidation of liabilities not covered by budgetary or other resources is dependent on future congressional appropriations.

## 13. Accrued Payroll and Benefits

The payroll and benefits liability as of September 30, 2009 and 2008 consists of the following (in thousands):

	2009	2008
Accrued Funded Payroll and Benefits	\$ 255,003	\$ 237,551
Accrued Unfunded Leave	329,376	295,380
Actuarial FECA Liability	715,033	681,664
<b>Totals</b>	<b>\$ 1,299,412</b>	<b>\$ 1,214,595</b>

Actuarial workers compensation liability claims incurred for the benefit of CBP employees under FECA are administered by DOL and are ultimately paid by CBP. Future workers' compensation estimates are generated from an application of actuarial procedures developed by the DOL.

## 14. Environmental & Disposal Liabilities

CBP is required to remediate contamination in accordance with Federal laws in order to protect human health and the environment. These laws include the Comprehensive Environmental Response, Compensation and Liability Act, the Resource Conservation and Recovery Act, the Oil Pollution Act, the Clean Water Act, the Toxic Substances Control Act, and the Clean Air Act.

Estimated environmental liabilities include expected future cleanup costs and those associated with site characterization, sampling, risk assessment, removal of contamination sources, treatment, containment, and monitoring. CBP records the estimated cost of environmental liabilities that are probable and measurable to the current operating period. For those probable sites where future liability is unknown or no reasonable estimate of the cost to clean up a particular site could be made, the cost of studies necessary to evaluate response or remediation requirements is reported.

CBP's environmental cleanup liability as of September 30, 2009 and 2008 was \$13.3 million and \$12.8 million, respectively. There were no material changes in total estimated cleanup costs due to changes in law or technology. Notable changes in estimated liabilities include:

- Estimates of liability are presented in FY 2009 dollars and have been appropriately escalated to account for inflation.
- CBP implemented the accounting requirements of Federal Accounting Standards Advisory Board, **Technical Bulletin 2006-1: Recognition and Measurement of Asbestos-Related Cleanup Costs**, (September 28, 2006). This reference requires estimating asbestos-related cleanup costs for both non-friable and friable asbestos-containing materials.
- Small arms firing ranges are considered a probable liability and are included in CBP's total environmental financial liability.
- The estimate for environmental remediation increased in the fourth quarter of FY 2009 due to changes in regulatory requirements, in remediation technology and long term monitoring requirements.

# Notes to Financial Statements

## 15. Other Liabilities

CBP considers \$85.5 million of the accrued FECA Liability due after September 30, 2010 as non-current. CBP considers all remaining Other Liabilities as current.

Other Public Liabilities include the following:

### Refunds Payable

Refunds Payable consists of amounts owed for refunds of duty and other trade related activity and drawback claims. These liabilities, all considered current year liabilities, are principally funded from the Refunds and Drawback account.

CBP accrues a liability for refunds and drawback claims approved at year-end, but paid subsequent to year-end. Payments made to importers/exporters are primarily identified when the import entry is liquidated, a process in which CBP makes a final determination of duties, taxes and fees owed on the entry. Due to non-liquidation of the entries, the amount to be refunded is undetermined. Therefore, a historical calculated average was used to determine a ratio for estimating the payable to be recorded. Using this average, CBP has estimated \$39.1 million and \$39.9 million as of September 30, 2009 and 2008, respectively, as a payable.

The September 30, 2009 and 2008, accrued liability consists of the following (in thousands):

	2009	2008
Refunds	\$ 77,491	\$ 72,921
Drawback Claims	48,252	57,099
<b>Totals</b>	<b>\$ 125,743</b>	<b>\$ 130,020</b>

### Injured Domestic Industries

The *Continued Dumping and Subsidy Offset Act (CDSOA) of 2000 (P.L. 106-387, Title X)*, enacted in FY 2001, calls for CBP to collect and disburse monies received in connection with antidumping and countervailing duty orders and findings to qualifying IDI. Antidumping duties are collected when it is determined that a class or kind of foreign merchandise is being released into the U.S. economy at less than its fair value to the detriment of a U.S. industry. Countervailing duties are collected when it is determined that a foreign government is providing a subsidy to its local industries to manufacture, produce, or export a class or kind of merchandise for import into the U.S. commerce to the detriment of a U.S. industry. Due to the repeal of the CDSOA in the Deficit Reduction Omnibus Reconciliation Act of 2005, only duties collected prior to October 1, 2007 will eventually be distributed to affected U.S. companies, pursuant to rulings by the U.S. Department of Commerce. During FY 2009 and 2008, CBP liquidated \$612.7 million and \$395.5 million, respectively in antidumping/countervailing duties and recorded the liability.

# Notes to Financial Statements

## 16. Leases

### Software License Agreements

CBP has a software license fee agreement for a mainframe software license. The liability associated with this software license agreement is reflected on the accompanying Consolidated Balance Sheet based upon the present value of the future minimum license agreement payments. As of September 30, 2009 and 2008, the aggregate capitalized cost of the agreement still subject to lease is \$152.2 million. This agreement is included in capitalized software.

As of September 30, 2009 (in thousands):

Summary of Assets Acquired through Capital Lease:	2009		
	Acquisition Cost	Accumulated Depreciation	Net Book Value
Personal Property (Software & Equipment)	\$ 161,726	\$ (137,233)	\$ 24,493

As of September 30, 2008 (in thousands):

Summary of Assets Acquired through Capital Lease:	2008		
	Acquisition Cost	Accumulated Depreciation	Net Book Value
Personal Property (Software & Equipment)	\$ 161,814	\$ (122,560)	\$ 39,254

Future minimum payments for cancelable commercial off-the-shelf license agreement and the present value of the minimum license agreement payments as of September 30, 2009, are as follows (in thousands):

Fiscal Year	2009
2010	\$ 17,981
Total Future Minimum License	17,981
Less: Imputed Interest	(1,087)
Total Net Present Value of Software License Agreements	\$ 16,894

The net present value of the cancelable software license agreement is expected to be funded from future sources.

### Operating Leases

CBP leases various facilities and equipment under leases accounted for as operating leases. The leased items consist of offices, warehouses, vehicles and other equipment. Much of the office space occupied by CBP is either owned by the Federal Government or is leased by the General Services Administration (GSA) from commercial sources. CBP is not committed to continue to pay rent to GSA beyond the period occupied providing proper advance notice to GSA unless the rental agreement is non-cancelable. It is expected that CBP will continue to occupy and lease office space from GSA in future years.

The following schedule, by years, shows the future minimum rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year, as of September 30, 2009 (in thousands):



# Notes to Financial Statements

<b>Fiscal Year</b>	<b>Facilities</b>
2010	\$ 55,567
2011	55,490
2012	55,331
2013	45,581
2014	35,699
Beyond 2014	245,498
Total Future Lease Payments	<u>\$ 493,166</u>

## 17. Commitments and Contingencies

### Legal Contingent Liabilities

CBP is party to various administrative proceedings, legal actions, and claims brought by or against it. Any financially unfavorable administrative or court decision will normally be funded from either: (1) CBP appropriation for refunds and drawback for trade litigation issues; (2) various claims and judgment funds maintained by Treasury; or (3) CBP salary and expense appropriation.

The range of estimated contingent liabilities for all probable and estimable litigation related claims as of September 30, 2009 and 2008 were \$73 million to \$189 million and \$59.6 million to \$148.9 million, respectively. Asserted and pending legal claims for which loss is reasonably possible range from an estimated \$374 million to \$503 million and \$517.7 million to \$658.6 million as of September 30, 2009 and 2008, respectively. As of September 30, 2009, CBP had 9 cases considered reasonably possible for which no estimate could be made.

### Duty and Trade Refunds

There are various other trade issues resolved by other federal agencies, such as the Department of Commerce, which may result in refunds of duties, taxes and fees from the Refunds and Drawback Account. Until such time as a decision is reached by the other federal agencies, CBP does not have sufficient information to estimate a contingent liability amount. All known refunds as of September 30, 2009 and 2008 have been recorded.

### Loaned Aircraft

CBP is generally liable to the Department of Defense for damage or loss to aircraft on loan. CBP had 16 aircraft loaned from Department of Defense with an acquisition value of \$94.4 million, as of September 30, 2009 and 2008.

## 18. Earmarked Funds

### **Consolidated Omnibus Budget Reconciliation (COBRA)**

In April 1986, the President signed the Consolidated Omnibus Budget Reconciliation Act (COBRA) of 1985, which authorized the Customs and Border Protection (CBP) to collect user fees for certain services. The law initially established processing fees for air and sea passengers, commercial trucks, rail cars, private vessels and aircraft, commercial vessels, dutiable mail packages, and CBP broker permits. An additional fee category, contained in tax reform legislation, for processing barges and bulk carriers for Canada and Mexico, was added later that year. The collection of the COBRA fees for CBP services began on July 7, 1986.

In addition to the collection of user fees, other changes in CBP procedures were enacted due to the COBRA statute. Most importantly, provisions were included for providing non-reimbursable inspectional overtime services and paying for excess pre-clearance costs from the COBRA user fee collections.

The Customs and Trade Act of 1990 amended the COBRA legislation to provide for the hiring of inspectional personnel, the purchasing of equipment, and the covering of related expenses with any surplus monies available, after overtime and excess pre-clearance costs are satisfied. Expenditures from the surplus can only be used to enhance the service provided to those functions for which fees are collected. This legislation took effect on October 1, 1990.

19 USC Section 58c contains the Fees for certain Customs services. The authority to use these funds is contained in the annual Department of Homeland Security Appropriations Act.

### **Immigration User Fees (IUF)**

Joint Resolution (H.J. Res. 738), making continuing appropriations for FY 1987 (the “1987 Act”) (Public Laws 99-500 and 99-591), established the Immigration User Fee Account (IUFA) [requiring] the [collection] of a \$5 fee charged to each passenger arriving in the United States from foreign locations aboard commercial aircraft and commercial vessels except passengers whose journeys originated in the United States, Canada, Mexico, a territory or possession of the United States, or an adjacent island. The 1987 Act directed the [INS] Service, beginning in FY 1987, to collect an immigration user fee for each passenger arriving in the United States by commercial air or sea conveyance (with limited exceptions). This law was codified in 8 U.S.C. 1103, 1356, section 286, the Immigration and Nationality Act (INA).

In 1993, Congress amended section 286 of the INA by raising the immigration user fee from the original \$5 to \$6 with the passage of Public Law 103-121. In 2002, in Public Law 107-77, Congress increased the immigration user fee from \$6 to \$7.

# Notes to Financial Statements

Also in Public Law 107-77, Congress amended section 286(e) of the INA to authorize the Attorney General to charge and collect a user fee from certain previously exempt commercial vessel passengers. Prior to the enactment of this law, commercial vessel passengers whose journeys originated in Canada, Mexico, a State, territory or possession of the United States, or an adjacent island, were statutorily exempt from paying the Immigration User Fee prescribed by section 286(d) of the INA. While these vessel passengers were exempt from paying the fee, the [INS] Service was still required to provide inspection services.

The IUFA was also established as a repository for fines imposed to prevent unauthorized landing and unlawful bringing of aliens in to the United States, penalties for document fraud, 31 Act overtime, and liquidated damages and expenses collected. All deposits into the IUFA are available until expended.

In FY 2003 with the formation of the DHS, CBP collects and shares the revenue from the immigration user fees with Immigration and Customs Enforcement (ICE). CBP maintains approximately 83% of the user fee, while the other 17% is turned over to ICE.

The following tables present condensed data relating to CBP earmarked funds (disclosed in note 1) as of and for the years ended September 30, 2009 and 2008 (in thousands):

	2009			
<b>Balance Sheet</b>	<b>COBRA</b>	<b>IUF</b>	<b>All Others</b>	<b>Total</b>
<b>Assets</b>				
Fund Balance with Treasury	\$ 732,406	\$ 84,035	\$ 19,372	\$ 835,813
Taxes Duties & Trade Receivables, Net	65,290	--	24	65,314
Other Assets	99,085	75,232	3,961	178,278
<b>Total Assets</b>	<b>\$ 896,781</b>	<b>\$ 159,267</b>	<b>\$ 23,357</b>	<b>\$ 1,079,405</b>
<b>Liabilities and Net Position</b>				
Liabilities	\$ 85,280	\$ --	\$ 1,868	\$ 87,148
Cumulative Results of Operations	811,501	159,267	21,489	992,257
<b>Total Liabilities and Net Position</b>	<b>\$ 896,781</b>	<b>\$ 159,267</b>	<b>\$ 23,357</b>	<b>\$ 1,079,405</b>
<b>Statement of Net Cost</b>				
Gross Cost	\$ 398,997	\$ 519,022	\$ 34,667	\$ 952,686
Less: Earned Revenue	(57)	--	4,952	4,895
<b>Net Cost of Operations</b>	<b>\$ 399,054</b>	<b>\$ 519,022</b>	<b>\$ 29,715</b>	<b>\$ 947,791</b>
<b>Statement of Change in Net Position</b>				
Net Position Beginning of Period	\$ 847,236	\$ 196,863	\$ 13,117	\$ 1,057,216
Net Costs of Operations	(399,054)	(519,022)	(29,715)	(947,791)
Non-Exchange Revenue	1,618,895	585,862	38,088	2,242,845
Net Transfers In/Out	(1,255,577)	(104,436)	--	(1,360,013)
<b>Change in Net Position</b>	<b>(35,736)</b>	<b>(37,596)</b>	<b>8,373</b>	<b>(64,959)</b>
<b>Net Position End of Period</b>	<b>\$ 811,500</b>	<b>\$ 159,267</b>	<b>\$ 21,490</b>	<b>\$ 992,257</b>

# Notes to Financial Statements

	2008			
	COBRA	IUF	All Others	Total
<b>Balance Sheet</b>				
<b>Assets</b>				
Fund Balance with Treasury	\$ 767,723	\$ 128,248	\$ 15,585	\$ 911,556
Taxes Duties & Trade Receivables, Net	75,530	--	31	75,561
Other Assets	103,964	68,615	719	173,298
Total Assets	<u>\$ 947,217</u>	<u>\$ 196,863</u>	<u>\$ 16,335</u>	<u>\$ 1,160,415</u>
<b>Liabilities and Net Position</b>				
Liabilities	\$ 99,980	\$ --	\$ 3,219	\$ 103,199
Cumulative Results of Operations	847,237	196,863	13,116	1,057,216
Total Liabilities and Net Position	<u>\$ 947,217</u>	<u>\$ 196,863</u>	<u>\$ 16,335</u>	<u>\$ 1,160,415</u>
<b>Statement of Net Cost</b>				
Gross Cost	\$ 375,535	\$ 615,007	\$ 41,340	\$ 1,031,882
Less: Earned Revenue	57	--	2,534	2,591
Net Cost of Operations	<u>\$ 375,478</u>	<u>\$ 615,007</u>	<u>\$ 38,806</u>	<u>\$ 1,029,291</u>
<b>Statement of Change in Net Position</b>				
Net Position Beginning of Period	\$ 787,717	\$ 229,670	\$ 10,089	\$ 1,027,476
Net Costs of Operations	(375,478)	(615,007)	(38,806)	(1,029,291)
Non-Exchange Revenue	1,925,373	703,988	41,834	2,671,195
Net Transfers In/Out	(1,490,376)	(121,788)	--	(1,612,164)
Change in Net Position	59,519	(32,807)	3,028	29,740
Net Position End of Period	<u>\$ 847,236</u>	<u>\$ 196,863</u>	<u>\$ 13,117</u>	<u>\$ 1,057,216</u>

## 19. Intragovernmental Costs and Exchange Revenue

Intragovernmental costs represent exchange transactions made between two reporting entities within the Federal Government and are presented separately from costs with the public (exchange transactions made between the reporting entity and a non-federal entity). Intragovernmental exchange revenue is disclosed separately from exchange revenue with the public. The criteria used for this classification requires that the intragovernmental expenses relate to the source of goods and services purchased by the reporting entity and not to the classification of related revenue. With intragovernmental costs, the buyer and seller are both federal entities. If a federal entity purchases goods or services from another federal entity and sells them to the public, the exchange revenue would be classified as “with the public,” but the related costs would be classified as intragovernmental. The purpose of this classification is to enable the Federal Government to provide consolidated financial statements, and not to match public and intragovernmental revenue with costs that are incurred to produce public and intragovernmental revenue.

In FY 2008 CBP identified costs and revenue by three programs. Effective with FY 2009, CBP added two programs: “Border Security Fencing, Infrastructure and Technology” and “Automation Modernization.”

The Consolidated Statements of Net Cost reflects intragovernmental and public cost and exchange revenue as summarized below for the years ended September 30, 2009 and 2008 (in thousands):

# Notes to Financial Statements

	2009	2008
<b>Border Security Inspections and Trade Facilitation at Ports of Entry</b>		
Intragovernmental Costs	\$ 1,813,756	\$ 1,550,794
Public Costs	4,359,311	4,323,019
<b>Total Border Security Inspections and Trade Facilitation at Ports of Entry Costs</b>	<b>6,173,067</b>	<b>5,873,813</b>
Less: Intragovernmental Earned Revenue	141,322	142,013
Less: Public Earned Revenue	67,852	62,188
<b>Total Border Security Inspections and Trade Facilitation at Ports of Entry Revenue</b>	<b>209,174</b>	<b>204,201</b>
<b>Border Security and Control Between Ports of Entry</b>		
Intragovernmental Costs	1,143,328	962,616
Public Costs	2,747,956	2,683,405
<b>Total Border Security and Control Between Ports of Entry Costs</b>	<b>3,891,284</b>	<b>3,646,021</b>
Less: Intragovernmental Earned Revenue	89,084	88,151
Less: Public Earned Revenue	42,772	38,602
<b>Total Border Security and Control Between Ports of Entry Revenue</b>	<b>131,856</b>	<b>126,753</b>
<b>Border Security Fencing, Infrastructure and Technology</b>		
Intragovernmental Costs	31,624	--
Public Costs	76,007	--
<b>Total Border Security Fencing, Infrastructure and Technology Costs</b>	<b>107,631</b>	<b>--</b>
Less: Intragovernmental Earned Revenue	2,464	--
Less: Public Earned Revenue	1,183	--
<b>Total Border Security Fencing, Infrastructure and Technology Revenue</b>	<b>3,647</b>	<b>--</b>
<b>Automation Modernization</b>		
Intragovernmental Costs	98,699	--
Public Costs	237,221	--
<b>Total Automation Modernization Costs</b>	<b>335,920</b>	<b>--</b>
Less: Intragovernmental Earned Revenue	7,690	--
Less: Public Earned Revenue	3,693	--
<b>Total Automation Modernization Revenue</b>	<b>11,383</b>	<b>--</b>
<b>Air and Marine Operations</b>		
Intragovernmental Costs	156,076	112,384
Public Costs	375,125	313,283
<b>Total Air and Marine Operations Costs</b>	<b>531,201</b>	<b>425,667</b>
Less: Intragovernmental Earned Revenue	12,161	10,291
Less: Public Earned Revenue	5,838	4,507
<b>Total Air and Marine Operations Revenue</b>	<b>17,999</b>	<b>14,798</b>
<b>Net Cost of Operations</b>	<b>\$ 10,665,044</b>	<b>\$ 9,599,749</b>

## 20. Sub-Organization Program Costs/ Program Costs by Segment

CBP is the unified border agency whose priority mission is the prevention of terrorism and terrorist weapons from entering the United States. CBP meets these responsibilities by: (1) enforcing the laws governing the flow of merchandise or commerce across the borders of the United States; (2) assessing and collecting duties, taxes, and fees on imported and other goods and services; and (3) enforcing drug-related and other laws and regulations of the United States on behalf of federal agencies and/or in conjunction with various state, local agencies, and foreign countries.

Operating costs are summarized in the Consolidated Statement of Net Cost by mission or major line of activity, as applicable to the reporting period. The net cost of operations is the gross (i.e., total) cost incurred by CBP, less any exchange (i.e., earned) revenue.

In FY 2008 CBP identified costs and revenue by three programs and one goal. Effective with FY 2009, CBP added two programs and two goals. The two new programs are “Border Security Fencing, Infrastructure, and Technology” and “Automation Modernization”. The two new goals are “Protect our Nation from Dangerous Goods” and “Protect Critical Infrastructure”. The FY 2008 Statement of Net Cost comparison and Schedule of Net Cost by Program and Responsibility Segment do not reflect the FY 2009 programs/goals breakout.

# Notes to Financial Statements

For the year ended September 30, 2009 (in thousands):

Schedule of Net Cost by Program and Responsibility Segment	2009				
	Protect our Nation from Dangerous People	Protect our Nation from Dangerous Goods	Protect Critical Infrastructure	Intra-Entity Eliminations	Consolidated Total
<b>Border Security Inspections and Trade Facilitation at Ports of Entry</b>					
Gross Costs:					
Passenger Processing	\$ 1,624,706	\$ 1,915,053	\$ --	\$ 377,056	\$ 3,162,703
Trade Compliance	--	2,506,867	--	267,032	2,239,835
Anti-Terrorism	117,374	620,230	--	78,570	659,034
Outbound	--	124,787	--	13,292	111,495
Total Gross Costs	1,742,080	5,166,937	--	735,950	6,173,067
Less: Earned Revenue	238,309	706,815	--	735,950	209,174
Net Program Costs	<u>\$ 1,503,771</u>	<u>\$ 4,460,122</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 5,963,893</u>
<b>Border Security and Control Between Ports of Entry</b>					
Gross Costs	\$ 4,355,201	\$ --	\$ --	\$ 463,917	\$ 3,891,284
Less: Earned Revenue	595,773	--	--	463,917	131,856
Net Program Costs	<u>\$ 3,759,428</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 3,759,428</u>
<b>Border Security Fencing, Infrastructure and Technology</b>					
Gross Costs	\$ 120,463	\$ --	\$ --	\$ 12,832	\$ 107,631
Less: Earned Revenue	16,479	--	--	12,832	3,647
Net Program Costs	<u>\$ 103,984</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 103,984</u>
<b>Automation Modernization</b>					
Gross Costs	\$ 2,471	\$ 366,949	\$ 6,548	\$ 40,048	\$ 335,920
Less: Earned Revenue	338	50,197	896	40,048	11,383
Net Program Costs	<u>\$ 2,133</u>	<u>\$ 316,752</u>	<u>\$ 5,652</u>	<u>\$ --</u>	<u>\$ 324,537</u>
<b>Air and Marine Operations</b>					
Gross Costs	\$ 594,531	\$ --	\$ --	\$ 63,330	\$ 531,201
Less: Earned Revenue	81,329	--	--	63,330	17,999
Net Program Costs	<u>\$ 513,202</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 513,202</u>
<b>Net Cost of Operations</b>	<u>\$ 5,882,518</u>	<u>\$ 4,776,874</u>	<u>\$ 5,652</u>	<u>\$ --</u>	<u>\$ 10,665,044</u>



# Notes to Financial Statements

For the year ended September 30, 2008 (in thousands):

Schedule of Net Cost by Program and Responsibility Segment	2008		
	Protect our Nation from Dangerous People	Intra-Entity Eliminations	Consolidated Total
<b>Border Security Inspections and Trade Facilitation at Ports of Entry</b>			
Gross Costs:			
Passenger Processing	\$ 3,425,181	\$ 405,727	\$ 3,019,454
Trade Compliance	2,432,375	288,125	2,144,250
Outbound	111,691	13,230	98,461
Anti-Terrorism	693,836	82,188	611,648
Total Gross Costs	6,663,083	789,270	5,873,813
Less: Earned Revenue	993,471	789,270	204,201
Net Program Costs	\$ 5,669,612	\$ --	\$ 5,669,612
<b>Border Security and Control Between Ports of Entry</b>			
Gross Costs	\$ 4,135,940	\$ 489,919	\$ 3,646,021
Less: Earned Revenue	616,672	489,919	126,753
Net Program Costs	\$ 3,519,268	\$ --	\$ 3,519,268
<b>Air and Marine Operations</b>			
Gross Costs	\$ 482,865	\$ 57,198	\$ 425,667
Less: Earned Revenue	71,996	57,198	14,798
Net Program Costs	\$ 410,869	\$ --	\$ 410,869
<b>Net Cost of Operations</b>	\$ 9,599,749	\$ --	\$ 9,599,749

## 21. Non-Exchange Revenues and Transfers In/Out Without Reimbursement

Non-exchange Revenue represents amounts collected from user fees that CBP may retain and expend as authorized by law. Transfers In/Out Without Reimbursement are amounts of funds collected and transferred from CBP receipt accounts to expenditure accounts within CBP and to other federal agencies.

# Notes to Financial Statements

## 22. Apportionment Categories of Obligations Incurred: Direct vs. Reimbursable Obligations

Apportionment categories are determined in accordance with the guidance provided in OMB Circular A-11, Preparation, Submission and Execution of the Budget. Category A represents resources apportioned for calendar quarters. Category B represents resources apportioned for: other time periods, activities, projects, objectives or any combination thereof (in thousands).

<b>FY Ended September 30, 2009</b>	<b>Apportionment Category A</b>	<b>Apportionment Category B</b>	<b>Exempt from Apportionment</b>	<b>Total</b>
Obligations Incurred - Direct	\$ 7,665,023	\$ 4,189,531	\$ 1,220,952	\$ 13,075,506
Obligations Incurred - Reimbursable	1,408,850	117,672	--	1,526,522
<b>Total Obligations Incurred</b>	<b>\$ 9,073,873</b>	<b>\$ 4,307,203</b>	<b>\$ 1,220,952</b>	<b>\$ 14,602,028</b>

<b>FY Ended September 30, 2008</b>	<b>Apportionment Category A</b>	<b>Apportionment Category B</b>	<b>Exempt from Apportionment</b>	<b>Total</b>
Obligations Incurred - Direct	\$ 6,532,724	\$ 5,357,264	\$ 972,988	\$ 12,862,976
Obligations Incurred - Reimbursable	1,622,088	141,443	--	1,763,531
<b>Total Obligations Incurred</b>	<b>\$ 8,154,812</b>	<b>\$ 5,498,707</b>	<b>\$ 972,988</b>	<b>\$ 14,626,507</b>

## 23. Appropriations

As of September 30, 2009 and 2008, the Combined Statements of Budgetary Resources consist of appropriations totaling \$13.2 billion and \$12 billion, respectively. This differs from the Consolidated Statements of Changes in Net Position as of September 30, 2009 and 2008, which consist of appropriations received totaling \$9.3 billion and \$7.9 billion, respectively. This difference is due to CBP's non-entity activity, which as of September 30, 2009 and 2008 consists of \$1.6 billion and \$1.4 billion, respectively, for Refund and Drawback activity as well as \$2.3 million and \$2.7 billion, respectively, for user/inspection fees and subsidy activity, which are not reported on the Consolidated Statements of Changes in Net Position.

Permanent indefinite appropriations refer to the appropriations that result from permanent public laws, which authorize CBP to retain certain receipts. The amount appropriated depends upon the amount of the receipts rather than on a specific amount. CBP has a permanent and indefinite appropriation, which is used to disburse tax and duty refunds and duty drawbacks. Although funded through an appropriation, refund and drawback activity is, in most instances, reported as a custodial activity. Refunds are custodial revenue-related activity in that refunds are a direct result of importer overpayments of duties, taxes and fees. Federal tax revenue received from taxpayers is not available for use in the operation of CBP and is not reported on the Consolidated Statements of Net Cost. Likewise, the refunds of overpayments are not available for use by CBP in its operations. Refunds and drawback disbursements totaled \$1.4 billion and \$1.3 billion for fiscal year ended September 30, 2009 and 2008, and are presented as a use of custodial revenue on the Consolidated Statements of Custodial Activity. This appropriation is not subject to

# Notes to Financial Statements

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budgetary ceilings established by Congress. CBP's refund payable at year-end is not subject to funding restrictions. Refund payment funding is recognized as appropriations are used.

## 24. Legal Arrangements Affecting the Use of Unobligated Balances

Unobligated balances, whose period of availability has expired, are not available to fund new obligations. Expired unobligated balances are available to pay for current period adjustments to obligations incurred prior to expiration. For a fixed appropriation account, the balance can be carried forward for five fiscal years after the period of availability ends. For a no-year account, the unobligated balance is carried forward indefinitely until (1) specifically rescinded by law; or (2) the head of the agency concerned or the President determines that the purposes for which the appropriation was made have been carried out and disbursements have not been made against the appropriation for two consecutive years.

Included in the cumulative results of operations for special funds is \$1 billion at September 30, 2009, that represents CBP's authority to assess and collect user fees relating to merchandise and passenger processing, to assess and collect fees associated with the services performed at certain small airports or other facilities, retain amounts needed to offset costs associated with collecting duties, and taxes and fees for the government of Puerto Rico. These special fund balances are restricted by law and in their use to offset specific costs incurred by CBP. Part of the passenger fees in the COBRA User Fee Account, totaling approximately \$784 million, as of September 30, 2009 is restricted by law in its use to offset specific costs incurred by CBP and are available to the extent provided in Department Appropriations Acts.

The entity trust fund balances result from CBP's authority to use the proceeds from general order items sold at auction to offset specific costs incurred by CBP relating to their sale, to use available funds in the Salaries and Expense Fund to offset specific costs for expanding border and port enforcement activities, and to use available funds from the Harbor Maintenance Trust Fund to offset administrative expenses related to the collection of the Harbor Maintenance Fee.

# Notes to Financial Statements

## 25. Explanation of Differences Between the SBR and the Budget of the US Government

The table below documents the material differences between the FY 2008 Combined Statement of Budgetary Resources and the actual amounts reported for FY 2008 in the Budget of the United States Government. Since the FY 2009 financial statements are reported prior to the Budget of the United States Government, CBP is reporting for FY 2008 only. Typically, the Budget of the United States Government with the FY 2009 actual data is published in February of the subsequent year. Once published, the FY 2009 actual data will be available at OMB web site, [www.whitehouse.gov/omb](http://www.whitehouse.gov/omb). (in thousands):

2008	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
<b>Combined Statement of Budgetary Resources</b>	\$ 17,175,517	\$ 14,626,507	\$ 2,633,691	\$ 8,583,890
Differences:				
Expired Appropriation not Included in President's Budget	(268,394)	(42,400)	--	--
Refunds & Drawbacks not Included in President's Budget	(968,851)	(968,851)	--	(968,983)
Injured Domestic Industries not Included in President's Budget (20X5688)	(969,824)	(264,561)	--	(264,561)
Offsetting Receipts not Included in the Treasury Annual Report	--	--	(31,846)	2,633,691
Miscellaneous	(32,612)	--	--	--
<b>Total Differences</b>	<b>(2,239,681)</b>	<b>(1,275,812)</b>	<b>(31,846)</b>	<b>1,400,147</b>
<b>Budget of the US Government</b>	<b>\$ 14,935,836</b>	<b>\$ 13,350,695</b>	<b>\$ 2,601,845</b>	<b>\$ 9,984,037</b>

## 26. Undelivered Orders at the End of Period

An undelivered order exists when a valid obligation has occurred and funds have been reserved, but the goods or services have not been delivered and have not been prepaid. Undelivered orders for the period ended September 30, 2009 and 2008 (in thousands):

	2009	2008
Unpaid	\$ 3,537,361	\$ 4,364,976
Upward/Downward Adjustment of Prior Period	(335,308)	(426,722)
<b>Total Undelivered Orders at the End of Period</b>	<b>\$ 3,202,053</b>	<b>\$ 3,938,254</b>

# Notes to Financial Statements

## 27. Custodial Revenues

Custodial Revenue consists of duties, user fees, fines and penalties, refunds and drawback overpayments and interest associated with import/export activity which have been established as a specifically identifiable, legally enforceable claim and remain uncollected as of year-end. These receivables are net of amounts deemed uncollectible which were determined by considering the debtor's payment record and willingness to pay, the probable recovery of amounts from secondary sources, such as sureties and an analysis of aged receivable activity. Primarily, revenue collections result from current fiscal year activity.

Disbursements from the Refunds and Drawback account for the fiscal year ended September 30, 2009 and 2008 (in thousands):

	<b>2009</b>	<b>2008</b>
Refunds	\$ 658,989	\$ 620,407
Drawback	708,498	675,298
<b>Total</b>	<b>\$ 1,367,487</b>	<b>\$ 1,295,705</b>

Amounts refunded during FY 2009 and 2008 identified by entry year consist of the following (in thousands):

<b>Entry Year</b>	<b>2009</b>	<b>Entry Year</b>	<b>2008</b>
2009	\$ 754,711	2008	\$ 815,098
2008	176,069	2007	162,254
2007	70,855	2006	54,267
2006	41,892	2005	26,350
Prior Years	323,960	Prior Years	237,736
<b>Total</b>	<b>\$ 1,367,487</b>	<b>Total</b>	<b>\$ 1,295,705</b>

The total amounts of antidumping and countervailing duties vary from year to year, depending on decisions from Department of Commerce. Antidumping and countervailing duty refunds (included in total refunds presented above) and associated interest refunded for the fiscal years ended September 30, 2009 and 2008, consisted of the following (in thousands):

	<b>2009</b>	<b>2008</b>
Antidumping and Countervailing Duty Refunds	\$ 29,313	\$ 16,122
Interest	747	775
<b>Total</b>	<b>\$ 30,060</b>	<b>\$ 16,897</b>

# Notes to Financial Statements

## 28. Reconciliation of Net Cost of Operations to Budget

The following table presents CBP's reconciliation of net cost of operations to budgetary accounts for the years ended September 30, 2009 and 2008 (in thousands):

	2009	2008
<b>Resources Used to Finance Activities</b>		
<b>Budgetary Resources Obligated</b>		
Obligations Incurred	\$ 14,602,028	\$ 14,626,507
Less: Spending Authority from Offsetting Collections and Recoveries	1,890,660	2,060,855
Obligations Net of Offsetting Collections and Recoveries	12,711,368	12,565,652
Less: Offsetting Receipts	2,300,029	2,633,691
Net Obligations	10,411,339	9,931,961
<b>Other Resources</b>		
Donations and Forfeiture of Property	3,917	14,002
Transfers In/Out Without Reimbursement	104,146	131,719
Imputed Financing from Costs Absorbed by Others	477,598	280,057
Net Other Resources Used to Finance Activities	585,661	425,778
<b>Total Resources Used to Finance Activities</b>	<b>\$ 10,997,000</b>	<b>\$ 10,357,739</b>
<b>Resources Used to Finance Items not Part of the Net Cost of Operations</b>		
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered, but not yet Provided	(607,718)	1,109,123
Resources that Fund Expenses Recognized in Prior Periods	9,139	38,813
Budgetary Offsetting Collections and Receipts that do not Affect Net Cost of Operations		
Other	(2,269,464)	(2,631,100)
Resources that Finance the Acquisition of Assets or Liquidation of Liabilities	2,229,214	1,409,249
Tax Revenue Refunds and Other Resources or Adjustments to Net Obligated Resources that do not Affect Net Cost of Operations	1,478,856	1,420,212
<b>Total Resources Used to Finance Items not Part of the Net Cost of Operations</b>	<b>\$ 840,027</b>	<b>\$ 1,346,297</b>
<b>Total Resources Used to Finance the Net Cost of Operations</b>	<b>\$ 10,156,973</b>	<b>\$ 9,011,442</b>
<b>Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period</b>		
<b>Components Requiring or Generating Resources in Future Periods</b>		
Increase in Annual Leave Liability and Environmental Liability	\$ 34,561	\$ 46,196
Change in Actuarial FECA Liability and Other	44,492	78,034
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods	\$ 79,053	\$ 124,230
<b>Components not Requiring or Generating Resources</b>		
Depreciation and Amortization	\$ 454,479	\$ 457,452
Revaluation of Assets or Liabilities	5,111	9,595
Other	(30,572)	(2,970)
Total Components of Net Cost of Operations that will not Require or Generate Resources	\$ 429,018	\$ 464,077
<b>Total Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period</b>	<b>\$ 508,071</b>	<b>\$ 588,307</b>
<b>Net Cost of Operations</b>	<b>\$ 10,665,044</b>	<b>\$ 9,599,749</b>

# Required Supplementary Information

## Deferred Maintenance

Deferred maintenance is maintenance that was not performed when it should have been or was scheduled to be performed, and has been delayed until a future period. Maintenance includes preventive maintenance, normal repairs, replacement of parts and structural components, and other activities needed to preserve the asset so that it will continue to provide acceptable service and achieve its useful life.

An assessment of “fair” means the facility/equipment condition meets minimum standards but requires additional maintenance or repair to prevent further deterioration, increase operating efficiency and to achieve normal life expectancy. An assessment of “good” means the facility/equipment condition is above minimum standards, but requires preventative maintenance or normal repairs to maintain the design intent of the building or equipment so that it continues to provide acceptable service and achieves the expected useful life. Deferred maintenance on property, plant and equipment as measured by condition assessment survey, is comprised of (in thousands):

	<b>2009</b>	
	<b>Condition Assessment</b>	<b>Deferred Maintenance</b>
Building and Structures	Poor to Good	\$ 96,048
Vehicles	Good	30
Multi-Use Heritage Assets	Poor to Good	2,080
Collections (documents and artifacts)	Poor to Good	--
<b>Totals</b>		<u><u>\$ 98,158</u></u>

	<b>2008</b>	
	<b>Condition Assessment</b>	<b>Deferred Maintenance</b>
Building and Structures	Poor to Good	\$ 87,134
Vehicles	Good	13
Multi-Use Heritage Assets	Poor to Good	2,179
<b>Totals</b>		<u><u>\$ 89,326</u></u>

## Statement of Budgetary Resources (SBR)

The total Budgetary Resources of \$17.7 billion for FY 2009 includes new budget authority, unobligated balances at the beginning of the year and transferred in/out, spending authority from offsetting collections, recoveries of prior year obligations and adjustments.



# Required Supplementary Information (Unaudited)

## Schedule of Budgetary Resources by Major Fund Type

As of September 30, 2009 (in thousands):

	Appropriated Funds	Trust Funds	Other Funds	Totals
<b>Budgetary Resources</b>				
Unobligated Balances Brought Forward, October 1	\$ 978,500	\$ 3,802	\$ 1,566,708	\$ 2,549,010
Recoveries of Prior Year Obligations	347,846	1,215	21,485	370,546
Budget Authority:				
Appropriations	9,293,211	3,917	3,889,184	13,186,312
Spending Authority From Offsetting Collections:				
Earned				
Collected	1,569,793	--	28,013	1,597,806
Change in Receivable From Federal Sources	6,527	--	4,261	10,788
Change in Unfilled Customer Orders:				
Advance Received	(123)	--	--	(123)
Without Advance From Federal Sources	(91,514)	--	3	(91,511)
Expenditure Transfers From Trust Funds	3,154	--	--	3,154
Subtotal	10,781,048	3,917	3,921,461	14,706,426
Non-Expenditure Transfers, Net	1,578,358	3,154	(1,260,909)	320,603
Permanently Not Available	(86,230)	--	(192,351)	(278,581)
<b>Total Budgetary Resources</b>	<b>\$ 13,599,522</b>	<b>\$ 12,088</b>	<b>\$ 4,056,394</b>	<b>\$ 17,668,004</b>
<b>Status of Budgetary Resources</b>				
Obligations Incurred:				
Direct	\$ 10,546,314	\$ 7,022	\$ 2,522,170	\$ 13,075,506
Reimbursable	1,498,697	--	27,825	1,526,522
Total Obligations Incurred	12,045,011	7,022	2,549,995	14,602,028
Unobligated Balance:				
Apportioned	64,021	--	--	64,021
Unobligated Balance not Available	1,490,490	5,066	1,506,399	3,001,955
<b>Total Status of Budgetary Resources</b>	<b>\$ 13,599,522</b>	<b>\$ 12,088</b>	<b>\$ 4,056,394</b>	<b>\$ 17,668,004</b>
<b>Change in Obligated Balances</b>				
Obligated Balance, Net				
Unpaid Obligations Brought Forward, October 1	\$ 5,285,429	\$ 1,185	\$ 91,099	\$ 5,377,713
Uncollected Customer Payments From Federal Sources Brought Forward, October 1	(280,680)	--	(19)	(280,699)
Total Unpaid Obligated Balance, Net	5,004,749	1,185	91,080	5,097,014
Obligations Incurred, Net	12,045,011	7,022	2,549,995	14,602,028
Gross Outlays	(12,601,875)	(6,469)	(2,431,643)	(15,039,987)
Recoveries of Prior Year Unpaid Obligations	(347,847)	(1,215)	(21,484)	(370,546)
Change In Uncollected Customer Payments From Federal Sources	84,987	--	(4,264)	80,723
Obligated Balance, Net End of Period				
Unpaid Obligations	4,380,717	523	187,967	4,569,207
Less: Uncollected Customer Payments From Federal Sources	(195,692)	--	(4,283)	(199,975)
Total, Unpaid Obligated Balance, Net, End of Period	4,185,025	523	183,684	4,369,232
<b>Net Outlays</b>				
Gross Outlays	12,601,875	6,469	2,431,643	15,039,987
Less: Offsetting Collections	(1,572,824)	--	(28,013)	(1,600,837)
Less: Distributed Offsetting Receipts	--	--	(2,300,029)	(2,300,029)
<b>Total Net Outlays</b>	<b>\$ 11,029,051</b>	<b>\$ 6,469</b>	<b>\$ 103,601</b>	<b>\$ 11,139,121</b>

# Required Supplementary Information (Unaudited)

## Schedule of Budgetary Resources by Major Fund Type

As of September 30, 2008 (in thousands):	Appropriated Funds	Trust Funds	Other Funds	Totals
<b>Budgetary Resources</b>				
Unobligated Balances Brought Forward, October 1	\$ 1,465,499	\$ 413	\$ 1,428,993	\$ 2,894,905
Recoveries of Prior Year Obligations	470,178	3,913	11,508	485,599
Budget Authority:				
Appropriations	7,929,110	4,136	4,039,728	11,972,974
Spending Authority From Offsetting Collections:				
Earned				
Collected	1,592,357	--	19,768	1,612,125
Change in Receivable From Federal Sources	(5,553)	--	(333)	(5,886)
Change in Unfilled Customer Orders:				
Advance Received	125	--	--	125
Without Advance From Federal Sources	(33,249)	(87)	(865)	(34,201)
Expenditure Transfers From Trust Funds	3,093	--	--	3,093
Subtotal	9,485,883	4,049	4,058,298	13,548,230
Non-Expenditure Transfers, Net	1,826,278	3,093	(1,495,708)	333,663
Permanently Not Available	(55,729)	--	(31,151)	(86,880)
<b>Total Budgetary Resources</b>	<b>\$ 13,192,109</b>	<b>\$ 11,468</b>	<b>\$ 3,971,940</b>	<b>\$ 17,175,517</b>
<b>Status of Budgetary Resources</b>				
Obligations Incurred:				
Direct	\$ 10,468,629	\$ 7,665	\$ 2,386,682	\$ 12,862,976
Reimbursable	1,744,980	--	18,551	1,763,531
Total Obligations Incurred	12,213,609	7,665	2,405,233	14,626,507
Unobligated Balance:				
Apportioned	7,892	--	--	7,892
Unobligated Balance not Available	970,608	3,803	1,566,707	2,541,118
<b>Total Status of Budgetary Resources</b>	<b>\$ 13,192,109</b>	<b>\$ 11,468</b>	<b>\$ 3,971,940</b>	<b>\$ 17,175,517</b>
<b>Change in Obligated Balances</b>				
Obligated Balance, Net				
Unpaid Obligations Brought Forward, October 1	\$ 3,982,203	\$ 5,577	\$ 81,948	\$ 4,069,728
Uncollected Customer Payments From Federal Sources Brought Forward, October 1	(319,481)	(88)	(1,216)	(320,785)
Total Unpaid Obligated Balance, Net	3,662,722	5,489	80,732	3,748,943
Obligations Incurred, Net	12,213,609	7,665	2,405,233	14,626,507
Gross Outlays	(10,440,205)	(8,144)	(2,384,575)	(12,832,924)
Recoveries of Prior Year Unpaid Obligations	(470,178)	(3,913)	(11,508)	(485,599)
Change In Uncollected Customer Payments From Federal Sources	38,802	87	1,198	40,087
Obligated Balance, Net End of Period				
Unpaid Obligations	5,285,430	1,184	91,099	5,377,713
Less: Uncollected Customer Payments From Federal Sources	(280,680)	(--)	(19)	(280,699)
Total, Unpaid Obligated Balance, Net, End of Period	5,004,750	1,184	91,080	5,097,014
<b>Net Outlays</b>				
Gross Outlays	10,440,205	8,144	2,384,575	12,832,924
Less: Offsetting Collections	(1,595,575)	--	(19,768)	(1,615,343)
Less: Distributed Offsetting Receipts	--	--	(2,633,691)	(2,633,691)
<b>Total Net Outlays</b>	<b>\$ 8,844,630</b>	<b>\$ 8,144</b>	<b>\$ (268,884)</b>	<b>\$ 8,583,890</b>

# Required Supplementary Information (Unaudited)

## Custodial Activity

Substantially all duty, tax and fee revenues collected by CBP are remitted to various General Fund accounts maintained by Treasury and U.S Department of Agriculture. Treasury further distributes these revenues to other federal agencies in accordance with various laws and regulations. CBP transfers the remaining revenue (less than one percent of revenues collected) directly to other federal agencies, the Governments of Puerto Rico and the U.S. Virgin Islands. Refunds of revenues collected from import/export activities are recorded in separate accounts established for this purpose and are funded through permanent indefinite appropriations. These activities reflect the non-entity, or custodial, responsibilities that CBP, as an agency of the Federal government, has been authorized by law to enforce.

CBP reviews selected documents to ensure all duties, taxes and fees owed to the Federal government are paid and to ensure regulations are followed. If CBP determines that duties, taxes, fees, fines or penalties are due in addition to estimated amounts previously paid by the importer/violator, the importer/violator is notified of the additional amount due. CBP regulations allow the importer/violator to file a protest on the additional amount due for review by the Port Director. A protest allows the importer/violator the opportunity to submit additional documentation supporting their claim of a lower amount due or to cancel the additional amount due in its entirety. During the protest period, CBP does not have a legal right to importer/violator's assets, and consequently CBP recognizes accounts receivable only when the protest period has expired or an agreement is reached. For FY 2009 and 2008 CBP had the legal right to collect \$1.9 billion and \$2.1 billion of receivables. In addition, there were \$2.2 billion and \$2 billion representing records still in the protest phase for FY 2009 and 2008 respectively. CBP recognized as write-offs \$397.4 million and \$311 million of assessments that the Department has statutory authority to collect at September 30, 2009 and 2008, but has no future collection potential. Most of this amount represents fines, penalties and interest.

# Other Accompanying Information

## Revenue Gap

The Entry Summary Compliance Measurement (ESCM) program collects objective statistical data to determine the compliance level of commercial imports with U.S. trade laws, regulations and agreements, and is used to produce a dollar amount for Estimated Net Undercollections, and a percent of Revenue Gap. The Revenue Gap is a calculated estimate that measures potential loss of revenue owing to noncompliance with trade laws, regulations, and trade agreements using a statistically valid sample of the revenue losses and overpayments detected during ESCM entry summary reviews conducted throughout the year. For FY 2008 and 2007, the Revenue Gap was \$396 and \$412 million, respectively. The preliminary estimated Revenue Gap for FY 2009 is \$250 million. As a percentage, the preliminary Revenue Gap for FY 2009 represents less than 1% of all collectable revenue for the year, the lowest it has been in over five years. The estimated over-collection and under-collection amounts due to non-compliance for FY 2009 were \$40 million and \$290 million, respectively. The overall trade compliance rate for FY 2008 and FY 2007 is 97.6, and 97.8 percent respectively. The preliminary overall compliance rate for FY 2009 is 98.5 percent.

The final overall trade compliance rate and estimated revenue gap for FY 2009 will be issued in February 2010.

## Petitioned and Protested Schedule

An analysis of the changes in petitioned and protested assessed amounts during FY 2009 and 2008 is as follows (in thousands):

	2009					
	Balance October 1	Additional Assessments	Protest in Favor of Debtor	Net Reduction Administrative Process	Additional Receivable	Balance September 30
Duties	\$ 247,155	\$ 126,233	\$ (5,365)	\$ (105,568)	\$ --	\$ 262,455
Taxes	300	8,664	(28)	(391)	--	8,545
Fees	692	2,038	(32)	(1,490)	--	1,208
Fines/Penalties	1,222,143	896,041	(416,676)	(199)	(458,649)	1,242,660
Interest	174,003	78,445	(4,945)	(45,992)	--	201,511
Antidumping/ Countervailing Duty	366,400	252,889	(10,350)	(166,610)	--	442,329
Refunds and Drawback	5,722	12,411	(600)	(5,339)	--	12,194
<b>Totals</b>	<b>\$ 2,016,415</b>	<b>\$ 1,376,721</b>	<b>\$ (437,996)</b>	<b>\$ (325,589)</b>	<b>\$ (458,649)</b>	<b>\$ 2,170,902</b>

## Other Accompanying Information (Unaudited)

	2008					
	Balance October 1	Additional Assessments	Protest in Favor of Debtor	Net Reduction Administrative Process	Additional Receivable	Balance September 30
Duties	\$ 220,610	\$ 229,995	\$ (10,149)	\$ (103,110)	\$ (90,191)	\$ 247,155
Taxes	48	744	(8)	(414)	(70)	300
Fees	3,778	2,799	(102)	(5,601)	(182)	692
Fines/Penalties	2,076,989	818,467	(905,125)	(47)	(768,141)	1,222,143
Interest	123,108	135,453	(8,276)	(23,524)	(52,758)	174,003
Antidumping/ Countervailing Duty	302,130	299,785	(36,594)	(60,090)	(138,831)	366,400
Refunds and Drawback	10,669	9,429	(660)	(12,064)	(1,652)	5,722
<b>Totals</b>	<u>\$ 2,737,332</u>	<u>\$ 1,496,672</u>	<u>\$ (960,914)</u>	<u>\$ (204,850)</u>	<u>\$ (1,051,825)</u>	<u>\$ 2,016,415</u>

CBP reviews selected entry documentation to determine whether importer payment estimates of duties, taxes and fees were accurate or whether additional supplemental amounts are owed and should be billed. CBP regulations allow the importer 90 days (or 180 days for entries on or after 12/18/04) from the bill date in which to file a protest to be reviewed by the Port Director and an application requesting further review of the protest by CBP Office of Regulations and Rulings challenging the assessment of supplemental duties, taxes and fees. If the Port Director denies the protest and application for further review, the protestor has an additional 60 days from the denial date for a review of the application by the Commissioner of CBP. Consequently, CBP recognizes accounts receivables only when the protested period has elapsed or when a protest decision has been rendered in CBP favor.

Additionally, importers and their sureties also have the option to petition for relief after receipt of CBP notice that a fine or penalty has been assessed when a violation of law or regulation is discovered. The importer or surety has 60 days to file a petition for relief or make payment of the assessed amount. If a petition is received and CBP finds there are extenuating circumstances such as an incorrect assessment, which warrants mitigation, relief is granted as prescribed by CBP mitigation guidelines and directives. Consequently, CBP recognizes accounts receivables only when the petition period has elapsed or when a petition decision has been rendered.

# Other Accompanying Information (Unaudited)

## Accounts Receivable with Public, Net

An aging of Accounts Receivables with the Public as of September 30, 2009 and 2008 is as follows (in thousands):

2009	Aged Period					Total
	< or = 90 days	91 days -1 year	1-2 years	2-3 years	3+ years	
Reimbursable Services	\$ 498	\$ 2,206	\$ 569	\$ 1,046	\$ 3,911	\$ 8,230
User Fees	145,615	4,136	21,973	1,009	16,935	189,668
Gross Receivables	146,113	6,342	22,542	2,055	20,846	197,898
Less Uncollectible Amounts	(--)	(--)	(3,391)	(25)	(13,984)	(17,400)
<b>Net Receivables</b>	<b>\$ 146,113</b>	<b>\$ 6,342</b>	<b>\$ 19,151</b>	<b>\$ 2,030</b>	<b>\$ 6,862</b>	<b>\$ 180,498</b>

2008	Aged Period					Total
	< or = 90 days	91 days -1 year	1-2 years	2-3 years	3+ years	
Reimbursable Services	\$ 433	\$ 3,245	\$ 1,465	\$ 77	\$ 345	\$ 5,565
User Fees	145,237	31,401	3,770	1,421	16,112	197,941
Gross Receivables	145,670	34,646	5,235	1,498	16,457	203,506
Less Uncollectible Amounts	(--)	(10,308)	(1,862)	(783)	(12,909)	(25,862)
<b>Net Receivables</b>	<b>\$ 145,670</b>	<b>\$ 24,338</b>	<b>\$ 3,373</b>	<b>\$ 715</b>	<b>\$ 3,548</b>	<b>\$ 177,644</b>

## Taxes Duties and Trade Receivables, Net

An analysis of the changes in accounts receivable during FY 2009 and 2008 is as follows (in thousands):

2009						
Receivable Category	Balance October 1	Receivable Recorded During the Fiscal Year	Collections	Write-offs	Adjustments	Balance September 30
Duties	\$ 1,841,687	\$ 12,241,022	\$(11,463,503)	\$ (5,027)	\$ (964,515)	\$ 1,649,664
Excise Taxes	98,978	1,937,532	(1,871,670)	(--)	(59,359)	105,481
Fees	144,799	1,186,052	(1,171,393)	(--)	(42,307)	117,151
Fines/ Penalties	773,692	31,008,832	(63,943)	(392,346)	(30,805,041)	521,194
Interest	222,699	65,936	(5,243)	(8)	7,700	291,084
Antidumping/ Countervailing Duty	310,097	282,184	(169,209)	(--)	(2,122)	420,950
Refunds/ Drawback	453	1,033	(897)	(--)	(141)	448
<b>Totals</b>	<b>\$ 3,392,405</b>	<b>\$ 46,722,591</b>	<b>\$ (14,745,858)</b>	<b>\$ (397,381)</b>	<b>\$ (31,865,785)</b>	<b>\$ 3,105,972</b>
Less: Uncollectible Amounts	1,314,393					1,232,270
<b>Net Receivables</b>	<b>\$ 2,078,012</b>					<b>\$ 1,873,702</b>

# Other Accompanying Information (Unaudited)

2008						
Receivable Category	Balance October 1	Receivable Recorded During the Fiscal Year	Collections	Write-offs	Adjustments	Balance September 30
Duties	\$ 1,648,851	\$ 13,706,210	\$ (12,708,037)	\$ (2,996)	\$ (802,341)	\$ 1,841,687
Excise Taxes	126,752	1,814,198	(1,773,158)	(7)	(68,807)	98,978
Fees	132,452	1,816,214	(1,779,521)	(11)	(24,335)	144,799
Fines/ Penalties	1,115,645	1,540,038	(72,596)	(276,929)	(1,532,466)	773,692
Interest	190,338	97,651	(12,257)	(16,524)	(36,509)	222,699
Antidumping/ Countervailing Duty	311,135	379,391	(257,010)	(14,515)	(108,904)	310,097
Refunds/ Drawback	2,062	10,566	(10,076)	(-)	(2,099)	453
<b>Totals</b>	<b>\$ 3,527,235</b>	<b>\$ 19,364,268</b>	<b>\$ (16,612,655)</b>	<b>\$ (310,982)</b>	<b>\$ (2,575,461)</b>	<b>\$ 3,392,405</b>
Less: Uncollectible Amounts	1,590,361					1,314,393
<b>Net Receivables</b>	<b>\$ 1,936,874</b>					<b>\$ 2,078,012</b>

An aging of accounts receivables as of September 30, 2009 and 2008 is as follows (in thousands):

2009	Aged Period					Total
	< or = 90 days	91 days – 1 year	1–2 years	2–3 years	3+ years	
Duties	\$ 1,498,220	\$ 35,217	\$ 7,106	\$ 4,478	\$ 104,643	\$ 1,649,664
Excise Taxes	99,003	41	13	2	6,422	105,481
User Fees	109,454	348	88	25	7,236	117,151
Fines/Penalties	39,986	156,664	86,435	52,987	185,122	521,194
Interest	24	26,352	18,665	9,501	236,542	291,084
Antidumping/ Countervailing Duty	24	121,574	45,523	20,556	233,273	420,950
Refunds and Drawback	--	140	15	53	240	448
Gross Receivables	1,746,711	340,336	157,845	87,602	773,478	3,105,972
Less: Uncollectible Amounts	53,037	286,817	130,892	73,759	687,765	1,232,270
<b>Net Receivables</b>	<b>\$ 1,693,674</b>	<b>\$ 53,519</b>	<b>\$ 26,953</b>	<b>\$ 13,843</b>	<b>\$ 85,713</b>	<b>\$ 1,873,702</b>

2009	Aged Period					Total
	< or = 90 days	91 days – 1 year	1–2 years	2–3 years	3+ years	
Duties	\$ 1,701,888	\$ 17,175	\$ 13,103	\$ 13,604	\$ 95,917	\$ 1,841,687
Excise Taxes	92,916	23	11	20	6,008	98,978
User Fees	134,865	298	49	9,304	283	144,799
Fines/Penalties	52,740	79,570	123,987	104,600	412,795	773,692
Interest	6	19,040	6,789	23,307	173,557	222,699
Antidumping/ Countervailing Duty	12,704	63,644	16,600	43,646	173,503	310,097
Refunds and Drawback	--	24	181	21	227	453
Gross Receivables	1,995,119	179,774	160,720	194,502	862,290	3,392,405
Less: Uncollectible Amounts	53,735	139,127	142,466	156,989	822,076	1,314,393
<b>Net Receivables</b>	<b>\$ 1,941,384</b>	<b>\$ 40,647</b>	<b>\$ 18,254</b>	<b>\$ 37,513</b>	<b>\$ 40,214</b>	<b>\$ 2,078,012</b>



# Other Accompanying Information (Unaudited)

## CBP Collections by Category (Dollars in thousands)

	2005	2006	2007	2008	2009
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
<b>Duties</b>					
Consumption Entries	\$ 23,213,476	\$ 24,787,051	\$ 26,477,180	\$ 27,543,807	\$ 22,759,054
Warehouse Withdrawals	107,477	90,832	80,858	76,910	61,638
Mail Entries	2,687	2,696	4,015	4,223	3,132
Passenger Baggage Entries	3,985	4,386	4,528	3,888	3,217
Crew Baggage Entries	11	9	9	8	5
Military Baggage Entries	2	2	1	1	2
Informal Entries	55,680	57,415	56,026	54,537	47,596
Vessel Repair Entries	38,687	15,742	22,938	43,315	39,240
Other Duties	44,552	37,853	57,122	41,277	33,237
<b>Total Duties</b>	<b>23,466,557</b>	<b>24,995,986</b>	<b>26,702,677</b>	<b>27,767,966</b>	<b>22,947,121</b>
<b>Miscellaneous</b>					
Violations of CBP Law	54,227	49,797	56,434	69,993	59,709
Testing, Inspecting & Grading	56	46	34	5,114	39
Miscellaneous Taxes	18,659	19,803	19,726	20,082	19,413
USDA Collections	91,070	94,359	115,168	112,319	110,425
Harbor Maintenance Fee	1,047,843	1,206,414	1,261,681	1,467,405	1,125,008
Fees	5,419	7,107	6,695	8,134	8,397
User Fee Account	1,600,365	1,702,043	2,436,087	2,633,600	2,258,027
Unclaimed Funds	1,124	991	479	372	276
Recoveries	3	2	2	9	7
Interest	9,760	8,604	13,229	23,987	30,623
Other CBP Receipts	9,645	17,246	17,382	15,325	22,331
<b>Total Miscellaneous</b>	<b>2,838,171</b>	<b>3,106,412</b>	<b>3,926,917</b>	<b>4,356,340</b>	<b>3,634,255</b>
<b>Internal Revenue Taxes</b>	<b>2,255,482</b>	<b>2,345,992</b>	<b>2,537,098</b>	<b>2,372,762</b>	<b>2,468,617</b>
<b>Total Collections</b>	<b>\$ 28,560,210</b>	<b>\$ 30,448,390</b>	<b>\$ 33,166,692</b>	<b>\$ 34,497,068</b>	<b>\$ 29,049,993</b>

These schedules will not equal amounts reported on the Consolidated Statement of Custodial Activity due to certain deposit fund collections, which are not considered custodial collections, being reported on the Consolidated Balance Sheet, and other adjustments. Also, entity collections which are not reported on the Consolidated Statement of Custodial Activity are included in this schedule.

# Other Accompanying Information (Unaudited)

## CBP Collections by Major Processing Port Locations (Dollars in thousands)

	2005 (Unaudited)	2006 (Unaudited)	2007 (Unaudited)	2008 (Unaudited)	2009 (Unaudited)
Boston	\$ 457,696	\$ 478,550	\$ 490,841	\$ 473,272	\$ 399,974
Buffalo-Niagara Falls	201,428	210,888	211,699	219,508	242,514
Ogdensburg	120,864	141,628	155,739	150,884	119,537
Portland, Maine	59,397	57,673	59,000	62,549	55,795
Providence	74,624	83,238	92,454	80,518	75,706
St. Albans	47,311	44,687	42,897	32,817	43,030
Baltimore	584,537	584,719	586,224	637,952	544,222
Philadelphia	586,956	639,201	650,157	588,607	456,252
Newark	4,179,939	4,362,201	4,552,031	4,642,846	4,036,961
JFK Airport	1,300,376	1,220,472	1,234,035	1,216,836	863,404
Charleston	1,145,999	1,175,442	1,030,435	1,002,353	820,601
Miami	798,307	752,711	733,596	634,894	520,283
San Juan	15,381	123,132	110,913	108,981	106,167
St. Thomas	113,244	14,819	16,074	17,145	15,301
Savannah	1,108,911	1,265,007	1,438,061	1,550,580	1,408,693
Tampa	409,229	473,650	506,870	516,533	358,532
Wilmington	267,769	290,312	314,993	328,933	267,905
Norfolk	629,274	674,041	685,494	709,807	634,642
NFC Indianapolis/Washington	703,182	914,086	1,518,378	1,941,618	1,107,891
Mobile	125,715	157,920	142,869	196,619	157,615
New Orleans	885,110	936,744	1,055,211	1,145,196	942,917
Dallas/Ft Worth	378,052	418,128	444,678	460,147	409,354
El Paso	126,113	146,472	196,930	173,202	140,143
Houston	611,527	773,047	805,245	909,631	764,115
Laredo	337,921	370,216	395,215	411,218	371,492
Port Arthur	35,092	28,144	32,604	33,725	33,665
Nogales	82,636	77,832	82,999	82,410	73,703
Los Angeles	6,788,238	7,258,249	8,138,181	8,387,589	7,468,426
San Diego	237,419	259,000	303,717	294,529	218,071
Anchorage	84,913	103,998	110,296	116,518	106,594
Honolulu	42,089	39,670	39,955	43,013	32,732
Portland	369,471	395,707	454,523	443,190	318,839
San Francisco	800,687	945,986	1,084,934	1,161,110	1,035,916
Seattle	1,143,720	1,157,762	1,274,972	1,264,836	1,122,774
Chicago	1,412,668	1,436,691	1,560,159	1,664,181	1,407,416
Cleveland	1,114,677	1,245,447	1,385,583	1,528,043	1,293,102
Detroit	552,711	546,870	538,879	563,036	446,972
Milwaukee	32,630	33,230	36,056	37,766	24,687
Minneapolis	132,869	168,568	180,724	198,610	170,645
Pembina	16,434	17,631	18,982	23,635	23,254
St. Louis	304,816	271,647	287,356	282,539	273,758
Great Falls	140,278	152,974	166,733	159,692	136,393
<b>Total Revenues Collected</b>	<b>\$ 28,560,210</b>	<b>\$ 30,448,390</b>	<b>\$ 33,166,692</b>	<b>\$ 34,497,068</b>	<b>\$ 29,049,993</b>

These schedules will not equal amounts reported on the Consolidated Statement of Custodial Activity due to certain deposit fund collections, which are not considered custodial collections, being reported on the Consolidated Balance Sheet, and other adjustments. Also, entity collections which are not reported on the Consolidated Statement of Custodial Activity are included in this schedule.

# Other Accompanying Information (Unaudited)

## Improper Payments Information Act of 2002 (IPIA)

CBP performed sample payment testing on these programs. The Custodial Refund and Drawback payment testing yielded an estimated improper payment amount of \$6.4 million of the \$1.2 billion, or .9 percent, disbursed during fiscal year 2008. The Custodial CDSOA and Payment to Wool and Cotton Manufacturers payment testing yielded an estimated improper payment amount of \$0 of the \$293 million, disbursed during fiscal year 2008. The Custodial Refund and Drawback Program error rate exceeded the threshold of 2.5 percent of the population tested. Based on the results of sample testing, corrective actions plans are required due to estimated error amount being above \$10 million. The corrective action plan used to resolve the material weakness relating to Drawback will resolve the program errors.

## Recovery Auditing

CBP contracted the audit recovery work for disbursements made during fiscal year 2008. The results of the recovery audit efforts continue to identify negligible recovery amounts. The recovery audit results are reported below:

Amount Subject to Review for CY Reporting	Actual Amount Reviewed and Reported CY	Amounts Identified for Recovery CY	Amounts Recovered CY	Amounts Identified for Recovery PY	Amounts Recovered PY	Cumulative Amounts Identified for Recovery (CY + PY)	Cumulative Amounts Recovered (CY + PY)
<u>\$2,232,120,059</u>	<u>\$2,232,120,059</u>	<u>\$17,607</u>	<u>\$9,116</u>	<u>\$269,844</u>	<u>\$221,563</u>	<u>\$287,451</u>	<u>\$230,679</u>

In addition, CBP identified amounts for recovery during the Improper Payment Information Act (IPIA) review of FY 2008 Custodial Program disbursements. The IPIA results are as follows (dollars in thousands):

	Amounts Identified as Improper Payments	Amounts Identified for Recovery	Amounts Recovered
Custodial Refund and Drawback	\$ 6,413	\$ 6,084	\$ 6,084
Custodial CDSOA, Cotton, and Wool	--	--	--
<b>Totals</b>	<u>\$ 6,413</u>	<u>\$ 6,084</u>	<u>\$ 6,084</u>

Recoveries for Custodial Refund and Drawback Program payments are restricted by regulations governing collections of duty, taxes, and fees associated with trade-related activity.

(in millions)	2008	2008	2008	2009	2009	2009	2010	2010	2010	2011	2011	2011	2012	2012	2012
Program	PY Outlays	PY %	PY \$	CY Outlays	CY IP %	CY IP \$	CY + 1 est. Outlays	CY + 1 IP %	CY + 1 IP \$	CY + 2 est. Outlays	CY + 2 IP %	CY + 2 IP \$	CY + 3 est. Outlays	CY + 3 IP %	CY + 3 IP \$
Refund & Drawback	\$1,245	0.91	\$11	\$1,418	.07	\$1	\$1,350	.07	\$1	\$1,350	.07	\$1	\$1,350	.07	\$1
CDSOA-Wool-Cotton	\$ 293	0.00	\$ 0	\$ 237	0.00	\$0	\$ 250	0.00	\$0	\$ 225	0.00	\$0	\$ 200	0.00	\$0
	\$1,537			\$1,655			\$1,600			\$1,575			\$1,550		

Note: The law that enacted CDSOA was repealed effective October 1, 2007, which will result in lower refund amounts beginning in 2010. Litigation may reduce disbursements for 2009.

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# Auditor Reports

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## **Office of Inspector General (OIG) Report on Major Management Challenges**

The DHS OIG's report on Major Management Challenges Facing the Department of Homeland Security, OIG-10-16, dated November 13, 2009, and the agency's progress addressing these challenges are addressed at the DHS consolidated level and are incorporated into the DHS Fiscal Year 2009 Annual Financial Report.

## **Independent Auditor's Report**

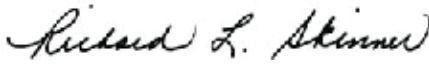
The independent audit of CBP's consolidated financial statement was conducted by KPMG LLP, and follows in its entirety.



Homeland  
Security

February 2, 2010

MEMORANDUM FOR: David V. Aguilar  
Acting Deputy Commissioner  
United States Customs and Border Protection

FROM:   
Richard L. Skinner  
Inspector General

SUBJECT: *Independent Auditors' Report on U.S. Customs and Border Protection's FY 2009 Financial Statements*

The attached report presents the results of the U.S. Customs and Border Protection's consolidated financial statement audits for fiscal years (FY) 2009 and 2008. We contracted with the independent public accounting firm KPMG LLP to perform the audits. KPMG LLP concluded that the U.S. Customs and Border Protection's consolidated financial statements as of and for the years ended September 30, 2009, and September 30, 2008, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

The FY 2009 independent auditors' report also contains observations and recommendations related to internal control weaknesses that were considered significant deficiencies and were required to be reported in the financial statement audit report. The six significant deficiencies in internal controls are presented below; the first three significant deficiencies are considered to be material weaknesses.

### Significant Deficiencies

- A. Financial Reporting
- B. Property, Plant, and Equipment (PP&E)
  - 1. Secure Border Initiative
  - 2. Improper Settlement of Assets from Construction in Progress
  - 3. Management Oversight of PP&E and Transactions
- C. Drawback of Duties, Taxes, and Fees
- D. Inactive Obligations
- E. Entry Process
  - 1. In-Bond Program
  - 2. Entry Summary Compliance Measurement
  - 3. Bonded Warehouse and Foreign Trade Zones

## F. Information Technology

KPMG LLP is responsible for the attached independent auditors' report dated January 6, 2010, and the conclusions expressed in the report. We do not express opinions on financial statements or internal control or conclusions on compliance with laws and regulations.

Consistent with our responsibility under the *Inspector General Act*, we are providing copies of our report to appropriate congressional committees with oversight and appropriation responsibility over the Department of Homeland Security. In addition, we will post a copy of the report on our website.

We extend our appreciation to the U.S. Customs and Border Protection's Office of the Chief Financial Officer and field offices for the cooperation and courtesies extended to our and KPMG LLP's staff during the audit. Should you have any questions, please call me, or your staff may contact Anne L. Richards, Assistant Inspector General for Audits, at 202-254-4100.

Attachment



# Department of Homeland Security Office of Inspector General

## **Independent Auditors' Report on U.S. Custom and Border Protection's FY 2009 Financial Statements**



OIG-10-51

February 2010





Homeland  
Security

February 2, 2010

### Preface

The Department of Homeland Security (DHS) Office of Inspector General (OIG) was established by the *Homeland Security Act of 2002* (Public Law 107-296) by amendment to the *Inspector General Act of 1978*. This is one of a series of audit, inspection, and special reports prepared as part of our oversight responsibilities to promote economy, efficiency, and effectiveness within the department.

The attached report presents the results of the U.S. Customs and Border Protection's financial statement audits for fiscal years (FY) 2009 and 2008. We contracted with the independent public accounting firm KPMG LLP to perform the audits. The contract required that KPMG LLP perform its audits according to generally accepted government auditing standards and guidance from the Office of Management and Budget and the Government Accountability Office. KPMG LLP concluded that the U.S. Customs and Border Protection's consolidated financial statements as of and for the years ended September 30, 2009 and 2008, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles. The FY 2009 auditors' report discusses three material weaknesses and three significant deficiencies in internal control. KPMG LLP is responsible for the attached auditors' report, and the conclusions expressed in the report. We do not express opinions on the U.S. Customs and Border Protection's financial statements or provide conclusions on compliance with laws and regulations.

The recommendations herein have been discussed in draft with those responsible for implementation. We trust this report will result in more effective, efficient, and economical operations. We express our appreciation to all of those who contributed to the preparation of this report.

A handwritten signature in black ink that reads "Richard L. Skinner".

Richard L. Skinner  
Inspector General



KPMG LLP  
2001 M Street, NW  
Washington, DC 20036

## Independent Auditors' Report

Inspector General  
U.S. Department of Homeland Security:

Commissioner  
U.S. Customs and Border Protection:

We have audited the accompanying consolidated balance sheets of the U.S. Customs and Border Protection (CBP), a Component of the U.S. Department of Homeland Security (the Department), as of September 30, 2009 and 2008, and the related consolidated statements of net cost, changes in net position, custodial activity, and combined statements of budgetary resources (hereinafter referred to as "consolidated financial statements") for the years then ended. The objective of our audits was to express an opinion on the fair presentation of these consolidated financial statements. In connection with our fiscal year 2009 audit, we also considered CBP's internal control over financial reporting and tested CBP's compliance with certain provisions of applicable laws, regulations, and contracts that could have a direct and material effect on these consolidated financial statements.

### Summary

As stated in our opinion on the consolidated financial statements, we concluded that CBP's consolidated financial statements as of and for the years ended September 30, 2009 and 2008, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

Our consideration of internal control over financial reporting resulted in identifying certain deficiencies that we consider to be material weaknesses, item letters A, B, and C, and other deficiencies that we consider to be significant deficiencies, item letters D, E, and F, as follows:

- A. Financial Reporting
- B. Property, Plant, and Equipment (PP&E)
  - 1. Secure Border Initiative
  - 2. Improper Settlement of Assets from Construction in Progress
  - 3. Management Oversight of PP&E and Transactions
- C. Drawback of Duties, Taxes, and Fees
- D. Inactive Obligations
- E. Entry Process
  - 1. In-Bond Program
  - 2. Entry Summary Compliance Measurement
  - 3. Bonded Warehouse and Foreign Trade Zones
- F. Information Technology

The results of our tests of compliance with certain provisions of laws, regulations, and contracts disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended.



The following sections discuss our opinion on CBP's consolidated financial statements; our consideration of CBP's internal control over financial reporting; our tests of CBP's compliance with certain provisions of applicable laws, regulations, and contracts; and management's and our responsibilities.

### **Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheets of the U.S. Customs and Border Protection (CBP), a component of the U.S. Department of Homeland Security (the Department) as of September 30, 2009 and 2008, and the related consolidated statements of net cost, changes in net position, and custodial activity, and the combined statements of budgetary resources for the years then ended.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CBP as of September 30, 2009 and 2008, and its net costs, changes in net position, custodial activity, and budgetary resources for the years then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in Notes 19 and 20 to the consolidated financial statements, CBP changed its method of presenting its cost programs in fiscal year 2009 to align with the Department's new goals per the 2008-2013 DHS Strategic Plan. As such, the fiscal year 2009 consolidated statement of net cost and related note disclosures are not comparable to the fiscal year 2008 consolidated statement of net cost and related note disclosures.

The information in the Management's Discussion and Analysis and Required Supplementary Information (RSI) sections is not a required part of the consolidated financial statements, but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it. As a result of such limited procedures, we believe that the RSI is not in conformity with accounting standards because the RSI presents the Statement of Budgetary Resources by major fund type instead of by major budget account.

The information in the Commissioner's Message, Performance Section, Message from the Chief Financial Officer, Other Accompanying Information, Office of Inspector General (OIG) Report on Major Management Challenges, and Acronyms, as reflected in the Performance and Accountability Report Fiscal Year 2009's accompanying table of contents are presented for purposes of additional analysis and are not required as part of the consolidated financial statements. This information has not been subjected to auditing procedures and, accordingly, we express no opinion on it.

### **Internal Control Over Financial Reporting**

Our consideration of the internal control over financial reporting was for the limited purpose described in the Responsibilities section of this report and was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.



In our fiscal year 2009 audit, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses, described in Exhibit I, and other deficiencies that we consider to be significant deficiencies, described in Exhibit II. Exhibit III presents the status of prior year material weaknesses and significant deficiencies. We also noted certain additional deficiencies involving internal control over financial reporting and its operation that we will report to the management of CBP in a separate letter.

### **Compliance and Other Matters**

The results of our tests of compliance as described in the Responsibilities section of this report disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04.

\* \* \* \* \*

### **Responsibilities**

**Management's Responsibilities.** Management is responsible for the consolidated financial statements; establishing and maintaining effective internal control; and complying with laws, regulations, and contracts applicable to CBP.

**Auditors' Responsibilities.** Our responsibility is to express an opinion on the fiscal year 2009 and 2008 consolidated financial statements of CBP based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 07-04. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of CBP's internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes:

- Examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements;
- Assessing the accounting principles used and significant estimates made by management; and
- Evaluating the overall consolidated financial statement presentation.

We believe that our audits provide a reasonable basis for our opinion.

In planning and performing our fiscal year 2009 audit, we considered CBP's internal control over financial reporting by obtaining an understanding of CBP's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements. We did not test all controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. The objective of our audit was not to express an opinion on the effectiveness of CBP's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of CBP's internal control over financial reporting.



As part of obtaining reasonable assurance about whether CBP's fiscal year 2009 consolidated financial statements are free of material misstatement, we performed tests of CBP's compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of the consolidated financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, and contracts applicable to CBP. However, providing an opinion on compliance with laws, regulations, and contracts was not an objective of our audit and, accordingly, we do not express such an opinion.

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CBP's response to the findings identified in our audit are presented in Management's Response to the Independent Auditor's Report. We did not audit CBP's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of CBP's management, DHS' management, the DHS' Office of Inspector General, OMB, the U.S. Government Accountability Office, and the U.S. Congress, and is not intended to be and should not be used by anyone other than these specified parties.

*KPMG LLP*

January 6, 2010

## Material Weaknesses

### A. Financial Reporting

#### Background:

In recent years, CBP's operations and capital expenditures have increased substantially, particularly along the Southwest Border states. However, CBP did not invest in an accounting and financial reporting infrastructure in proportion to its growth in mission. The accounting system, processes, and staffing level that exists is absorbing an increased workload, creating an environment where financial statement errors are more likely to occur, especially in areas that are new to CBP, such as construction of the virtual and physical fence along the Southwest Border.

#### Condition:

We noted that CBP:

- Did not detect misstatements in its September 30, 2009 financial statements. Specifically, CBP misstated gross cost and earned revenue by \$1.3 billion in its Statement of Net Cost. In addition, in Note 19, *Intragovernmental Costs and Exchange Revenue*, CBP incorrectly reported \$2.9 billion of costs with the public as intragovernmental costs and \$46.2 million of intragovernmental earned revenue as earned revenue with the public. Furthermore, Note 22, *Apportionment Categories of Obligations Incurred*, was misstated by \$142 million. These errors were subsequently corrected prior to publishing the financial statements;
- Did not add sufficient resources or infrastructure within the Office of Administration or in the operating divisions to supplement its current accounting and financial reporting personnel, and consequently has been unable to adequately monitor inputs and operational activities to ensure proper and timely accounting and reporting consideration;
- Did not timely develop and effectively communicate policies and procedures to properly account for and report significant new activities that occur outside of the Office of Administration;
- Did not have an annual risk assessment and/or focus group process that maintained its effectiveness to timely identify and address new accounting standards, and/or the application of existing standards to new operations, that may have a material impact on financial reporting on an ongoing basis throughout the year;
- Did not timely address the impact of Statement of Federal Financial Accounting Standards (SFFAS) No. 29, *Heritage Assets and Stewardship Land* (SFFAS No. 29), fully effective for reporting periods beginning after September 30, 2008, and OMB Circular No. A-136, *Financial Reporting Requirements*, on its financial statements. Although CBP hired a historian to manage its historical items, the Office of Administration did not have the resources to dedicate to this area, and therefore did not coordinate obtaining timely, relevant information for financial reporting. CBP did not fully analyze SFFAS No. 29 until the external auditor requested an evaluation of the impact of SFFAS No. 29; and
- Did not prepare a comparative FY 2008 Statement of Net Cost and related notes. DHS changed reporting goals during FY 2008 to align them with its Strategic Plan. In order to be consistent with DHS reporting, CBP changed the presentation of its FY 2009 financial statements to report more detail. However, CBP did not initially consider the presentation of comparative FY 2008 information for the newly presented programs. CBP later determined that it is unable to prepare comparative FY 2008 financial statements due to limitations in its cost accounting system.

**Criteria:**

OMB Circular No. A-123, *Management's Responsibility for Internal Control*, defines internal control and provides guidance to Federal managers on improving the accountability and effectiveness of Federal programs and operations by establishing, assessing, correcting, and reporting on internal control. In particular, management is responsible for establishing and maintaining internal control to achieve the objectives of effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations. The documentation for internal control, all transactions, and other significant events should be readily available for examination. Further, relevant, reliable, and timely information should be communicated to relevant personnel at all levels within an organization. It is also crucial that an agency communicate with outside organizations. In addition, the Circular states that management should identify both internal and external risks, and analyze those risks for their potential effect on the entity.

SFFAS No. 29 states, "Entities with heritage assets should reference a note on the balance sheet that discloses information about heritage assets, but no asset dollar amount should be shown," and specifies the disclosure requirements related to Stewardship Property, Plant, and Equipment (PP&E).

Statement of Federal Financial Accounting Concepts No. 1, *Objectives of Federal Financial Reporting*, states that financial reporting "should help report users make relevant comparisons among similar federal reporting units, such as comparisons of the costs of specific functions or activities. Comparability implies that differences among financial reports should be caused by substantive differences in the underlying transactions or organizations rather than by the mere selection of different alternatives in accounting procedures or practices."

OMB Circular No. A-136, *Financial Reporting Requirements*, addresses which elements of an agency's Annual Financial Statements must be presented on a comparative basis: "The basic statement identified above [which includes the Statement of Net Cost], and the related notes, should present balances and amounts for the current year and the prior year...The MD&A should include comparisons of the current year to the prior year and should provide an analysis of the agency's overall financial position and results of operations to assist users in assessing whether that financial position has improved or deteriorated as a result of the year's activities."

**Cause/Effect:**

CBP did not perform an adequate review to detect material misstatements in its financial statements. CBP did not make sufficient investments in its accounting and financial reporting infrastructure, including human resources, and did not identify and establish policies and procedures to account for substantial new operations. In addition, CBP does not have a formalized, continuous, and comprehensive communication process to timely identify and address changes to accounting standards that are important to financial reporting. Consequently, CBP and the external auditor have identified several errors in the financial statements that occurred throughout the year, some of which related to the prior year.

**Recommendations:**

We recommend that CBP:

1. Update and reinforce its policies and procedures for assembling the financial statements to include standard reviews, approvals, and edit checks;



2. Conduct a human resource and finance organizational assessment to identify accounting and finance infrastructure improvements that should be made to ensure that the Office of Administration and operational units have the resources to establish necessary policies, procedures and controls in operational units, and to ensure effective monitoring of transactions and events to ensure accurate financial reporting;
3. Develop and timely communicate policies and procedures to ensure that key financial reporting issues are addressed before, or at the same time, that significant new operations are undertaken. Such policies and procedures should ensure that CBP identify both changes in operations and changes in accounting standards; and
4. Enhance the annual risk assessment and/or focus group process to ensure continued effectiveness and relevance in identifying new accounting standards, and/or the application of existing standards to new operations timely.

**B. Property, Plant, and Equipment (PP&E)****1. Secure Border Initiative****Background:**

CBP has acquired substantial new technology, facilities, and other assets in recent years through purchase and construction. Since FY 2004, CBP's capital assets have increased from \$1.5 billion to \$5.2 billion as of September 30, 2009, an increase of approximately 3.5 times in size. One of the largest components of this growth is the Secure Border Initiative (SBI), which is a comprehensive multi-year plan to secure America's borders and reduce illegal migration. SBI includes two main components: the Facilities Management and Engineering (FM&E) Tactical Infrastructure (TI) and the SBI Network (SBInet). To properly account for this level and complexity of capital expenditure, CBP has had to implement new accounting policies, procedures, and processes, and apply technical accounting standards not previously used by CBP, such as full-costing of construction projects. We noted several findings related to new operations, specifically related to PP&E, which demonstrate that financial management has not kept pace with this significant growth.

**Condition:**

We noted that CBP:

- Did not timely address the accounting impact and the procedures necessary to capture all capitalized costs associated with the SBInet. These procedures included communicating with and providing training to program office personnel about necessary accounting information, determining a base unit of a depreciable asset, determining a methodology for recording the construction in progress (CIP) percentage of completion, and determining a methodology for recording overhead costs. CBP did not investigate a majority of these issues until FY 2009, nearly a year after the project began. As a result of this untimely communication, CBP expensed approximately \$163 million in FY 2008 and an additional \$30 million in FY 2009 that should have been capitalized as CIP as of September 30, 2008;
- Did not have a fully integrated system to account for assets acquired related to the SBInet program. In addition, neither CBP nor its contractor are tracking all accountable property



## EXHIBIT I

because several assets were tracked together as a group rather than individual assets and other assets were recorded in various sub-contractors' systems, but not CBP's systems;

- Over-depreciated assets related to the FM&E TI physical fence by approximately \$30 million because CBP did not timely adjust the useful life for the steel fence and instead applied the same six-year useful life that had been applied to previous wire fences. Upon analysis, CBP determined that this useful life should be twenty years. This analysis was completed prior to the issuance of the FY 2008 financial statements; however, the offices that coordinated the analysis did not timely communicate the analysis to the Office of Administration to adjust the financial statements; and
- Did not thoroughly review the accuracy of amounts reported by project managers for the FM&E TI CIP percentage of completion (POC) accrual in some instances, and therefore had an estimated net understatement of CIP of \$18 million. Furthermore, CBP did not detect calculation errors in the CIP POC at both March 31 and June 30, 2009.

### Criteria:

OMB Circular No. A-123 defines internal control and provides guidance to Federal managers on improving the accountability and effectiveness of Federal programs and operations by establishing, assessing, correcting, and reporting on internal control. In particular, management is responsible for establishing and maintaining internal control to achieve the objectives of effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations. The documentation for internal control, all transactions, and other significant events should be readily available for examination. Further, relevant, reliable, and timely information should be communicated to relevant personnel at all levels within an organization. It is also crucial that an agency communicate with outside organizations. In addition, the Circular states that management should identify both internal and external risks, and analyze those risks for their potential effect on the entity.

SFFAS No. 6, *Accounting for Property, Plant, and Equipment*, states that:

- PP&E consists of tangible assets, including land, that meet the following criteria: they have estimated useful lives of 2 years or more; they are not intended for sale in the ordinary course of operations; and they have been acquired or constructed with the intention of being used, or being available for use by the entity;
- All PP&E shall be recorded at cost. Cost shall include all costs incurred to bring the asset to a form and location suitable for its intended use; and
- Depreciation expense is calculated through the systematic and rational allocation of the cost of general PP&E, less its estimated salvage/residual value, over the estimated useful life of the general PP&E.

### Cause/Effect:

CBP's substantial growth, especially in the purchase and construction of capital assets, has required greater capacity of human and system resources, including resources outside of the Office of Administration. As a result, accounting for new operations, such as the construction of FM&E TI and SBI net, are not considered in a timely manner, causing errors or misapplication of U.S. generally accepted accounting principles (GAAP) in financial reporting. These financial statement errors and/or inconsistencies with GAAP may go

undetected, in some cases until subsequent years or until questioned by an auditor. Furthermore, CBP did not establish a thorough plan before beginning the SBInet project to account for the assets and costs necessary to implement these projects. For instance, CBP did not prepare detailed instructions regarding the level it would track each asset acquired and how those assets related to the capitalized units recorded in the financial statements. Therefore, CBP is unable to track the location of each asset as it is replaced, repaired, or moved due to its lack of a fully integrated property system. This may reduce CBP's ability to accurately account for capital improvements as compared to repair and maintenance expenses. This deficiency is also related to the conditions described in Section A, *Financial Reporting*.

### **Recommendations:**

We recommend that CBP:

1. Conduct an assessment of the resources in the Office of Administration dedicated to PP&E to determine whether the accounting function has appropriate structure and personnel in these areas to match the breadth and depth of its rapidly growing operations and make changes, as appropriate;
2. Develop policies and procedures to ensure that key financial reporting issues are addressed in a timely manner. Such policies and procedures should ensure that CBP identify both changes in operations and changes in accounting standards. This recommendation is also related to Section A, *Financial Reporting*;
3. Conduct a critical assessment of agency-wide communication and make immediate changes to ensure that significant financial-related events outside of the Office of Administration are timely communicated to the Office of Administration for proper and timely accounting and reporting consideration; and
4. Develop policies and procedures to track all SBInet assets within its financial system of record in order to integrate the tracking of CBP's SBInet property with its core financial system.

## **2. Improper Settlement of Assets from Construction in Progress**

### **Condition:**

During FY 2009, we noted weaknesses related to the untimely capitalization of completed CIP assets to completed fixed assets. Specifically, we noted 61 instances in which assets were moved untimely from CIP to fixed assets. In addition, we noted eight instances in which CBP did not properly complete its formalized process for the settlement of assets placed into service and three instances in which the amount allocated to the final asset from CIP did not agree to the supporting documentation. As of September 30, 2009, CBP recorded an additional \$22 million in accumulated depreciation and depreciation expense to correct for the identified errors.

**Criteria:**

SFFAS No. 6 requires that “PP&E shall be recognized when title passes to the acquiring entity or when the PP&E is delivered to the entity or to an agent of the entity. In the case of constructed PP&E, the PP&E shall be recorded as construction work in process until it is placed in service, at which time the balance shall be transferred to general PP&E.” In addition, it states that “All general PP&E shall be recorded at cost. Cost shall include all costs incurred to bring the PP&E to a form and location suitable for its intended use.”

OMB Circular No. A-123 states, “Management is responsible for developing and maintaining effective internal control. Effective internal control provides assurance that significant weaknesses in the design or operation of internal control, that could adversely affect the agency’s ability to meet its objectives, would be prevented or detected in a timely manner.” In addition, “management should identify internal and external risks that may prevent the organization from meeting its objectives. When identifying risks, management should take into account relevant interactions within the organization as well as with outside organizations.”

**Cause/Effect:**

CBP did not process and record the transfer of completed assets from CIP to in-use assets (i.e., settlement of assets) in a timely manner and does not have a formal, robust process to periodically review assets recorded as CIP and determine if they have been placed in service. As a result, CIP, PP&E, depreciation expense, and accumulated depreciation may be misstated at any point during the fiscal year.

**Recommendation:**

We recommend that CBP:

1. Establish and implement a standardized process that is integrated with its financial system of record in order to facilitate the timely recording of assets placed into service; and
2. Develop policies and procedures to require that program offices and/or project managers periodically review their listing of assets recorded as CIP and determine if any of these assets have been placed in service.

**3. Management Oversight of PP&E and Transactions****Condition:**

We noted that CBP:

- Did not properly perform and/or document several physical annual inventories related to real and personal property;
- Recorded certain asset additions in duplicate, for an amount other than the amount invoiced, or using the incorrect general ledger account;
- Did not consistently follow its procedures for recording asset retirement transactions because CBP did not record certain transactions timely; disposed of assets prior to the

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completion of the appropriate disposal authorization form; and recorded transactions without supporting documentation;

- Did not properly account for its operating materials and supplies as of March 31, 2009. Specifically, materials held for repair were recorded twice and certain equipment was improperly classified as operating materials and supplies. In addition, CBP records operating materials and supplies at replacement cost, rather than historical cost; and
- Did not consistently record PP&E transactions based on its classification and/or transaction code structure.

### Criteria:

SFFAS No. 6 states that:

- PP&E consists of tangible assets, including land, that meet the following criteria: they have estimated useful lives of 2 years or more; they are not intended for sale in the ordinary course of operations; and they have been acquired or constructed with the intention of being used, or being available for use by the entity;
- PP&E shall be recognized when title passes to the acquiring entity or when the PP&E is delivered to the entity or to an agent of the entity. In the case of constructed PP&E, the PP&E shall be recorded as construction work in process until it is placed in service, at which time the balance shall be transferred to general PP&E;
- All PP&E shall be recorded at cost. Cost shall include all costs incurred to bring the asset to a form and location suitable for its intended use;
- In the period of disposal, retirement, or removal from service, general PP&E shall be removed from the asset accounts along with associated accumulated depreciation/amortization. Any difference between the book value of the PP&E and amounts realized shall be recognized as a gain or a loss in the period that the general PP&E is disposed of, retired, or removed from service; and
- Depreciation expense is calculated through the systematic and rational allocation of the cost of general PP&E, less its estimated salvage/residual value, over the estimated useful life of the general PP&E.

SFFAS No. 3, *Accounting for Inventory and Related Property*, states “Valuation Under the Consumption Method. Operating materials and supplies shall be valued on the basis of historical cost.”

OMB Circular No. A-123 states that “Management is responsible for developing and maintaining effective internal control. Effective internal control provides assurance that significant weaknesses in the design or operation of internal control, that could adversely affect the agency’s ability to meet its objectives, would be prevented or detected in a timely manner.”

### Cause/Effect:

CBP’s guidance for performing and documenting PP&E inventories was neither clearly stated nor consistently followed. CBP does not have sufficient policies and procedures or did not enforce policies and procedures related to the review of PP&E transactions for accuracy, classification, and timeliness. CBP did not perform a proper review of purchase requisitions to

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determine whether the costs incurred should be capitalized or expensed. As a result, CBP's PP&E balance may be misstated by the recording of transactions, which are incorrect, unsupported, or untimely.

### **Recommendation:**

We recommend that CBP:

1. Refine and reinforce guidance for the performance and documentation of PP&E inventories;
2. Develop, document, and communicate policies and procedures for classifying, recording, and reviewing all PP&E transactions. These procedures should include agreeing the transaction to supporting documentation, ensuring that the transactions are recorded timely, and reviewing the transaction type and general ledger accounts in which the transactions are recorded to ensure that the financial statements are materially correct and presented in accordance with GAAP;
3. Emphasize the need to record asset disposals in accordance with established policy;
4. Provide sufficient accounting training to all relevant personnel who process PP&E transactions; and
5. Develop, document, and communicate policies and procedures for the proper establishment and review of purchase requisitions as either capital assets or expenses.

## **C. Drawback of Duties, Taxes and Fees**

### **Background:**

U.S. Customs and Border Protection (CBP), as a component of the U.S. Department of Homeland Security (Department or DHS), continued to perform an important revenue collection function for the U.S. Treasury. CBP collected approximately \$26.4 billion in import duties, taxes and fees in fiscal year 2009 on merchandise arriving in the United States from foreign countries.

Drawback is a remittance, in whole or in part, of duties, taxes, or fees previously paid by an importer. Drawback typically occurs when the imported goods on which duties, taxes, or fees have been previously paid are subsequently exported from the United States or destroyed prior to entering the commerce of the United States. Depending on the type of drawback claim, the claimant has up to eight years from the date of importation to file for drawback. The *Miscellaneous Trade and Technical Corrections Act of 2004* (Public Law 108-429) created a limited timeframe for liquidating claims; the new process is known as deemed-liquidation by CBP. In response to the new timeframe for liquidation of drawback claims, CBP implemented policies and procedures that require the payment of claims in an accelerated timeframe.

### **Condition:**

We noted the following weaknesses related to internal controls over drawback of duties, taxes, and fees paid by the importer:

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- The Automated Commercial System (ACS) lacked automated controls to detect and prevent excessive drawback claims and payments, necessitating inefficient manual processes that do not effectively compensate for the lack of automated controls. ACS did not have the capability to compare, verify, and track essential information on drawback claims to the related underlying consumption entries or export documentation upon which the drawback claim was based. For example, ACS did not contain electronic edit checks that would identify duplicate claims for export of the same merchandise;
- ACS lacked controls to prevent the overpayment of drawback claims at the summary line level;
- Drawback review policies did not require drawback specialists to review all or a statistically valid sample of prior drawback claims against the underlying consumption entries (UCE) to determine whether, in the aggregate, an excessive amount was claimed. CBP does not have absolute assurance that a selected import entry is not being over claimed by different drawback claims;
- Drawback review policy and procedures allow drawback specialists, with supervisory approval, to judgmentally decrease the number of ACS selected UCEs randomly selected for review, thus decreasing the review's effectiveness. Further, CBP's sampling methodology for selecting UCEs is not considered to be statistically valid; and
- The period for document retention related to a drawback claim is only three years from the date of payment. However, there are several situations that could extend the life of the drawback claim well beyond three years.

### Cause/Effect:

Much of the drawback process is manual, placing an added burden on limited resources. CBP uses a sampling approach to compare, verify, and match consumption entry and export documentation to drawback claims submitted by importers. However, system and procedural limitations decrease the effectiveness of this approach. The inherent risk of fraudulent claims or claims made in error is high, which increase the risk of erroneous payments.

### Criteria:

Under the *Federal Managers Financial Integrity Act of 1982* (FMFIA), management must implement cost-effective controls to safeguard assets and ensure reliable financial reporting. Office of Management and Budget (OMB)'s *Revised Implementation Guidance for the Federal Financial Management Improvement Act* states that financial systems should "routinely provide reliable financial information uniformly across the Federal government following professionally-accepted accounting standards" to support management of current operations. The Federal Systems Integration Office (FSIO) publications and OMB Circular No. A-127, *Financial Management Systems*, outline the requirements for Federal systems. FSIO's *Core Financial System Requirements* states that the core financial system must maintain detailed information by account sufficient to provide audit trails and to support billing and research activities. OMB Circular No. A-127 requires that the design of financial systems should eliminate unnecessary duplication of a transaction entry. Whenever appropriate, data needed by the systems to support financial functions should be entered only once and other parts of the system should be updated through electronic means consistent with the timing requirements of normal business/transaction cycles.

The Office of Management and Budget (OMB) Circular No. A-123, *Management's Responsibility for Internal Control*, states that "management is responsible for establishing and maintaining internal controls

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to achieve the objectives of effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations.”

### **Recommendations:**

We recommend that CBP:

1. Implement effective internal controls over drawback claims as part of any new system initiatives, including the ability to compare, verify, and track essential information on drawback claims to the related underlying consumption entries and export documentation for which the drawback claim is based, and identify duplicate or excessive drawback claims;
2. Implement automated controls to prevent overpayment of a drawback claim; and
3. Develop a system or process to eliminate the need for statistical sampling of UCE and prior related drawback claims. In addition, until this system or process is implemented, we recommend that CBP explore other statistical approaches for selecting UCEs and prior related drawback claims under the current ACS environment.

### **CBP Response:**

See management’s response included in the attached letter.



## Other Significant Deficiencies

### D. Inactive Obligations

#### Background:

CBP issued Directive 1220-011B, *Quarterly Review of Unliquidated Obligations*, during fiscal year 2006, which requires each Office under CBP to review their obligations quarterly in order to properly identify those amounts that require deobligation. The review must be reported to CBP's National Finance Center (NFC) each quarter. On June 11, 2009, CBP Directive 1220-011B was superseded by CBP Directive 1220-011C, *Reviews of Unliquidated Obligations and Open Goods/Service Receiving Records*, which requires all obligation and open goods receipt and service entry sheet records to be reconciled to supporting documentation at the close of each quarter of the fiscal year, i.e., December 31, March 31, June 30, and September 30. Additionally, a semi-annual review of specific populations of obligations must be performed and the status for each record identified.

#### Condition:

CBP is not enforcing its policies and procedures to monitor and deobligate or close-out its obligations in a timely manner. We conducted a review of inactive obligations at June 30, 2009 and identified \$51.7 million that potentially required deobligation. CBP initiated a review of open obligations that was completed in fourth quarter fiscal year 2009 from which invalid obligations were identified for deobligation. CBP was unable to process all deobligations at the detail level prior to September 30, 2009, and therefore, recorded an on-top adjustment for inactive obligations in the amount of \$114 million. Through additional testing of undelivered orders (UDOs) as of September 30, 2009, we noted 23 invalid UDO balances.

Furthermore, CBP is not properly enforcing its policies and procedures for timely receipt of certification letters and deobligation of expired contracts. We noted as of December 31, 2008, 16 offices that submitted certification letters to certify the review of all open obligations to the Director of the National Finance Center, 10 of these submissions were later than 30 days after the end of the quarter. During our procedures performed over contracts as of March 31, 2009, we noted that CBP did not close three expired contracts in the financial system because funds were not deobligated.

#### Criteria:

U.S. Code Title 31 Section 1501 states that "an amount shall be recorded as an obligation of the United States Government only when supported by documentary evidence of (1) a binding agreement between an agency and another person (including an agency) that is (a) in writing, in a way and form and for a purpose authorized by law; and (b) executed before the end of the period of availability..." Section 1554, Audit, control and reporting states, "The head of each agency shall establish internal controls to assure that an adequate review of obligated balances is performed to support the certification required by section 1108(c) of this title."

CBP Directive 1220-011C states that "All obligation and open goods receipt and service entry sheet records must be reconciled to supporting documentation at the close of each quarter of the fiscal year, i.e., December 31, March 31, June 30, and September 30. Additionally, a semi-annual review of specific population of obligations must be performed and the status for each record identified. This is done to



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reasonably assure that only valid obligations remain open and open goods receipt and service entry sheet records are accurate.”

CBP Directive 1220-011B states that “Financial Plan Holder will review the following Systems, Applications, and Products (SAP) reports each fiscal quarter to reconcile their obligations to supporting records.” This directive also requires that “Each Assistant Commissioner will prepare a certification letter to the Director, National Finance Center, stating that he/she has reviewed all open obligations. The certification letter will be prepared at the end of each fiscal year quarterly review, and is due no later than 30 days after the end of the quarter. For the fourth quarter, year-end deadlines are to be followed.”

### **Cause/Effect:**

CBP is not properly enforcing its policies and procedures to monitor all open obligations on a periodic basis to determine if amounts require deobligation. As a result, undelivered orders and related account balances may be overstated at any point during the fiscal year.

### **Recommendations:**

We recommend that CBP:

1. Re-emphasize and reinforce compliance with Directive Nos. 1220-011B and 1220-011C to ensure that obligations are being reconciled to supporting documentation on a quarterly basis (and deobligated, if necessary) and reviewed for validity on a semi-annual basis. In addition, monitor the timely receipt of quarterly certification letters and semi-annual reports;
2. Re-emphasize and reinforce compliance with 31 USC 1501 and 31 USC 1554 and all other applicable laws and regulations; and
3. Develop and implement procedures in order to deobligate invalid obligations in a timely manner, which may include periodic validation of inactive obligations.

## **E. Entry Process**

### **1. In-Bond Program**

#### **Background:**

##### *General In-Bond Process*

An in-bond entry occurs when an importer brings an item through one port; however, the item generally does not officially enter U.S. commerce until it reaches the intended port of destination. An in-bond also allows foreign merchandise arriving at one U.S. port to be transported through the U.S. and be exported from another U.S. port without the payment of duty.

##### *Compliance Audit and In-Bond*

In 1998, CBP implemented an audit system within the Automated Commercial System (ACS). It serves as a compliance measurement system, which utilizes random examinations and port audit reviews to ensure compliance. This audit system was designed to ensure bonded carrier compliance with their bond obligations. The audit system uses TINMAN to select ports to

perform physical examinations at the time of arrival and departure and to perform post audit reviews of carrier activity. Once each week, ports throughout the U.S. are assigned post audits and physical examinations to perform based on a GAO-approved algorithm.

*In-Bond Shipments Overdue for Export (M02) Report*

The M02 report is a monthly list of in-bond shipments overdue for export. Items on this report are in-bond movements transmitted by importers or brokers via Automated Manifest System (AMS), Automated Broker Interface (ABI), or paper not yet exported in the required time limit. Review of the M02 report is designed to identify cargo that has not been exported and therefore may have physically, but not formally entered into U.S. commerce, thus circumventing the assessment and payment of duties and fees.

*Monthly List of In-Bond Shipments Overdue (M07) Report*

On a bi-monthly basis, each port is required to review and reconcile a list of In-Bond Shipments Overdue included in the M07 report. Data on paperless and conventional in-bond movements transmitted by AMS participants, as well as in-bond information input via INBE appears in this report. In-bonds are considered overdue if they have not arrived at the destination port within 30 days from departure. Review of the M07 report is designed to identify cargo that has not been entered into the U.S. at the original port of entry communicated to CBP, thus possibly entering the U.S. commerce and circumventing the assessment and payment of duties and fees.

**Condition:**

We noted the following weaknesses exist over the in-bond program:

- Ports are required to submit a summary of post audits conducted and the associated results to HQ; however, due to ACS system limitations, HQ cannot prepare an oversight report to determine if ports have completed all required audits. The SINS function code generates a report that is designed to provide this information, but it currently does not accurately list the history of all in-bonds selected for audit and is not consistent with the listing of incomplete TINMAN audits on the INES report.
- The M02 report does not track air in-bonds. CBP is currently creating the M19 report to track air in-bonds, but the M19 report was not available in fiscal year 2009.
- The requirement for ports to review the M07 report (pertaining to Immediate Transport in-bonds) was not issued until February 2009, and was therefore not in operation for all of the fiscal year.
- There is no formal requirement for ports to maintain documentation evidencing the performance of and results from post-audits and physical examinations.
- There is no formal requirement for ports to document the resolution of items on the M02 and M07 reports. Documentation evidences that the resolution was appropriate and allows for proper oversight of the completion of these reports.
- CBP does not perform a formal analysis to ensure there is not a potentially significant loss of revenue through the in-bond process, as a result of goods entering the commerce of the U.S. without formal entry.
- CBP did not consistently monitor and document its review of the M02 and M07 reports and query ACS and document completion of TINMAN audits on a timely basis.

**Criteria:**

According to Title 19 Section 18.2(d) of the Code of Federal Regulations (CFR), the carrier's "failure to surrender the in-bond manifest or report the arrival of bonded merchandise within the prescribed period shall constitute an irregular delivery and the initial bonded carrier shall be subject to applicable penalties."

The Office of Management and Budget (OMB) Circular No. A-123, *Management's Responsibility for Internal Control*, states that "management is responsible for establishing and maintaining internal controls to achieve the objectives of effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations."

**Cause/Effect:**

In recent years, the in-bond program has implemented several new directives and a new handbook to address the performance of the program at the port level; however, there is not a documentation requirement at the national level related to the M02 and M07 reports. Additionally, ports are not completely or properly monitoring the post audit in-bond process due to staffing levels at the port level and an increased focus on other CBP programs. Current ACS system limitations also limit the ability of CBP to accurately monitor the in-bond process, both at the headquarters and port levels.

The inability to effectively monitor the in-bond process and verify the arrival of in-bond merchandise at the port level leads to a potential loss in revenue. In addition, the lack of an automatic compilation and analysis of audit results at the national level makes it difficult for CBP to efficiently and fully determine the effectiveness of in-bond audits, common in-bond errors, and weaknesses in the overall in-bond process.

**Recommendations:**

We recommend that CBP:

1. Ensure that the following functionalities are included in CBP's information systems:
  - Consistent information to track the status of TINMAN audits;
  - A robust M19 report to track air in-bonds;
  - Compilation of the results of all TINMAN audits performed during the year;
  - An analysis function to evaluate importers' compliance with regulations and overall effectiveness of the in-bond process;
2. Increase HQ oversight of the in-bond process by:
  - Analyzing the summary of post-audits conducted and associated results;
  - Providing increased training to port personnel on the in-bond process, to include performing TINMAN audits and working monitoring reports;
3. Ensure all ports perform TINMAN audits timely, as required;
4. Develop or re-emphasize formal requirements for all ports to:

- Continue to run and work the M07 report throughout the year to track overdue Immediate Transportation in-bonds;
  - Run and work the M19 report to track open air in-bonds, once implemented;
  - Maintain documentation evidencing the performance of and results from post-audits and physical examinations;
  - Maintain documentation related to the resolution of items on the M02, M07, and, once implemented, M19 reports. Documentation of these items will allow for effective management oversight of the use of these tools;
5. Annually analyze the in-bond program to ensure there is not a significant potential loss of revenue relating to in-bonds.

## **2. Entry Summary Compliance Measurement**

### **Background:**

Entry Summary Compliance Measurement (ESCM) is the primary method by which CBP measures risk in the areas of cargo security, trade compliance, and revenue collection. CBP utilizes the ESCM to measure the effectiveness of its control mechanisms deployed and its execution in collecting revenues rightfully due the U.S. Department of the Treasury. The ESCM program is a key performance indicator used to determine if CBP's internal controls are operating effectively as they pertain to ensuring compliance with laws and regulations. The Compliance Measurement program is also used to determine the revenue gap that is reported in the "Other Accompanying Information" in the financial statements.

### **Condition:**

We noted the following weaknesses related to ESCM:

- A memorandum entitled "Compliance Measurement for FY 2009 – Change of Policy on 120-Day ISDA Input Requirement" dated March 17, 2009, rescinded the requirement to input initial remarks into ACS using the "ISDA" function code within 60 days and final remarks within 120 days. Instead, the memo suggests a 120 day deadline but only requires a final input date of January 31, 2010, for final remarks for FY 2009 Import Specialists' review. This formal annual deadline does not provide for timely, effective, and continuous monitoring of ESCM.
- In FY 2008, guidance from the Commercial Targeting and Enforcement Directorate suspended the requirement for ESCM Coordinators at the ports to perform random reviews of non-anomalous lines. This suspension was not replaced by any other data query or tool in FY 2009.
- Through corroborative inquiry at the eleven statistically-selected ports of entry, we noted that the Compliance Measurements Accuracy Tracking Systems (CMATS) tool was not operational in the first six months of 2009 and had numerous delays in version releases in the 3<sup>rd</sup> quarter of FY 2009. CBP did not have oversight of ESCM through use of any other tools when CMATS was not operational at two of the eleven ports tested.

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- The CMATS tool operates off the Customs Automated Port Profile (CAPPS) database, which is a monthly cumulative compilation of all CBP examinations. However, since the CAPPS database is generally released the third week of each month, there is a time lag between the information in the CMATS report and the discrepant entries that have previously been resolved.
- Up until FY 2006, the National Targeting and Control Branch (NTCB) performed port audits to identify errors during the performance of an ESCM review. Since FY 2006, CBP-HQ has relied on the Self-Inspection Program (SIP) to determine how the ports are performing ESCM examinations; however, the SIP worksheets do not provide the equivalent information that was provided by the twenty-five point audit report utilized in the NTCB port audits. Despite revisions to the ESCM SIP worksheets, SIP alone does not provide for a sufficient review of ESCM.
- CBP has not fully implemented the Mission Action Plan (MAP) CBP-MAP-08-17 because CBP is in the process of developing a statistically-valid random sample of ESCM reviews to be completed at the port level each month. In addition, CBP is in the process of developing tracking mechanisms to be updated by headquarters on a quarterly basis to ensure that ports are in compliance with ESCM guidelines and requirements. These elements described in CBP-MAP-08-17 were not fully implemented or revised to reflect changes in the planned actions as of September 2009.

### Criteria:

Statement of Federal Financial Accounting Standards (SFFAS) No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, Section 69.2 - Available information on the size of the tax gap, states, “Collecting entities should provide any relevant estimates of the annual tax gap that become available as a result of federal government surveys or studies. The tax gap is defined as taxes or duties due from non-compliant taxpayers or importers. Amounts reported should be specifically defined, e.g., whether the tax gap includes or excludes estimates of taxes due on illegally earned revenue.”

OMB Circular No. A-136, *Financial Reporting Requirements*, Section II.5.3, *Tax Burden/Tax Gap*, states, “Preparers of statements of entities that collect taxes may consider presenting the information described below, if the information is readily available and the preparers believe the information will enhance the usefulness of the statements. Refer to SFFAS No. 7 for further guidance.

A perspective on the income tax burden. This could take the form of a summary of the latest available information on the income tax and on related income, deductions, exemptions, and credits for individuals by income level and for corporations by value of assets.

Available information on the size of the tax gap. Collecting entities should provide any relevant estimates of the annual tax gap that become available as a result of Federal surveys or studies.”

OMB Circular No. A-123 states that “management is responsible for establishing and maintaining internal controls to achieve the objectives of effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations.”

**Cause/Effect:**

Policies and procedures have not been developed and/or implemented to ensure the reliability and accuracy of ESCM input results. The self-inspection worksheet to be completed by the ports does not require a sufficient level of review to be considered a mitigating control. The CMATS tool was not operating sufficiently to provide effective, consistent review of ESCM entries at the port level.

Incomplete guidelines may result in an inappropriate review of ESCM entries. With inadequate oversight of the ESCM data, CBP may have an inaccurately projected revenue gap.

**Recommendations:**

We recommend that CBP implement the following to improve ESCM:

1. Require CM Coordinators at ports to perform reviews on a timely and continuous basis;
2. Establish criteria, reporting, and tracking mechanisms at Headquarters for reviewing all ESCM entries. Headquarters should use these tracking mechanisms to perform additional oversight over the ESCM process, at least on a quarterly basis;
3. Modify the CMATS tool to exclude errors and anomalies relating to untimely input of ISDA remarks, and instead require CM Coordinators to run a single, standardized data query at least on a monthly basis of open ISDA remarks to ensure efficient and accurate ESCM reviews; and
4. Develop and utilize analysis tools to measure outstanding and completed ESCM reviews and utilize the analysis tool at the port level to ensure that Import Specialists complete ESCM reviews in a timely yet achievable manner. This can be achieved by re-instating the 120-day requirement with provisions for an appropriate allowance for acceptable deviations from the requirement. The allowance can be in the form of a benchmark based on past data.

**3. Bonded Warehouse and Foreign Trade Zones****Background:**

Bonded Warehouses (BWs) are facilities under CBP's supervision used to store merchandise that has not made entry into the U.S. Commerce. BWs are used to provide a place for storing goods in the U.S. for up to 5 years. The goods that are stored in such warehouses are secured by the bond on the warehouse. Goods are entered into the BW by submission of the CBP Entry Summary Form 7501.

Foreign Trade Zones (FTZs) are secure areas under CBP supervision considered outside of the CBP territory. Authority for establishing these facilities is granted by the Foreign Trade Zones Board under the Foreign Trade Zones Act of 1934, as amended (19 U.S.C. 81a-81u). Foreign and domestic merchandise may be moved into zones for operations not otherwise

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prohibited by law, including storage, exhibition, assembly, manufacturing, and processing. Goods are admitted into an FTZ using CBP Form 214.

### Condition:

We noted the following internal control weaknesses related to the BW and FTZ processes:

- While CBP has developed national databases within the Automated Commercial Environment (ACE), which contain an inventory of all BWs and FTZs, such databases have not been tested for completeness. In addition, these databases are not currently used to document the assessed risk of each BW or FTZ, compliance reviews scheduled, or the results of compliance reviews. Furthermore, there are no requirements for HQ or the Field Offices to compare this database to the compliance review schedules submitted by the ports to ensure that all compliance reviews are being performed.
- The BW and FTZ Compliance Review Manuals did not have specific guidance, in the form of a questionnaire or checklist, for determining the risk assessment of a BW or FTZ. The Compliance Review Manuals stated that a risk assessment should be performed by “analyzing and combining the findings of compliance reviews, security surveys, compliance measurement data, informed and enforced compliance, historical data, and other risk factors listed in this handbook.” However, there is no standard guidance on how a port should specifically evaluate this data for each BW or FTZ; the relative importance/priority of each data source; and how a port should analyze these sources and any deficiencies noted to determine the assessed risk, in order to help ensure consistency in how ports evaluate risk.
- In FY 2009, HQ implemented an electronic survey that it completes at the end of the fiscal year to determine the status of the BW and FTZ programs; however, the survey did not conclude on the effectiveness of compliance reviews. In addition, the survey did not contain detailed descriptions of common discrepancies identified in those compliance reviews, risks presented by those discrepancies, or techniques for mitigating those risks.
- As part of our testwork at ten ports with BW and FTZ facilities, we noted the following specific findings related to BW and FTZ internal controls:
  - The risk assessment for one FTZ at one port was not performed;
  - The risk assessment for one BW at one port was marked as low risk; however, the errors noted in the compliance review documentation more accurately reflect a medium risk.

### Criteria:

Under the Code of Federal Regulations, CBP’s supervisory authority over bonded warehouses and foreign trade zones is outlined in Title 19, Section 19.4(a), “...the port director may authorize a Customs officer to supervise any transaction or procedure at the bonded warehouse facility. Such supervision may be performed through periodic audits of the warehouse proprietor’s records, quantity counts of goods in warehouse inventories, spot checks of selected warehouse transactions or procedures or reviews of conditions of recordkeeping, storage, security, or safety in a warehouse facility.” Title 19, Section 146.3



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states, (a), “Customs officers will be assigned or detailed to a zone as necessary to maintain appropriate Customs supervision of merchandise and records pertaining thereto in the zone, and to protect the revenue.” (b), “Supervision may be performed through a periodic audit of the operator’s records, quantity count of goods in a zone inventory, spot check of selected transactions or procedures, or review of recordkeeping, security, or conditions of storage in a zone.”

OMB Circular No. A-123 states that “management is responsible for establishing and maintaining internal controls to achieve the objectives of effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations.”

### **Cause/Effect:**

CBP does not have comprehensive guidance related to the determination and documentation of risk assessments. CBP does not have formal, comprehensive guidance related to the monitoring of the BW and FTZ programs by HQ and the Field Offices throughout the year. At the time of testwork, CBP did not have a comprehensive information system to document risk assessments, track both scheduled and completed compliance reviews, and perform HQ and Field Office monitoring and analysis of the BW and FTZ programs.

CBP cannot effectively monitor the BW/FTZ program if a complete population of all BWs and FTZs is not compiled. The lack of specific guidance for determining risk assessment leads to inconsistent procedures in assessing risk at the port level.

### **Recommendations:**

We recommend that CBP:

1. Continue to develop standardized procedures for HQ or field office oversight to ensure compliance review schedules are being reviewed, and that all ports are aware of updates and changes to the program and can consistently execute all requirements presented in the compliance review manuals and handbooks;
2. Continue the current implementation of national databases of all BWs and FTZs within ACE and SharePoint and develop procedures to ensure their completeness. Develop functionality for these databases to document risk assessments, compliance reviews, and their results;
3. Continue to develop and implement standard procedures for conducting risk assessments for all BWs and FTZs. The standard procedures should include a questionnaire or checklist, which lists the areas of risk to evaluate, the relative importance of each area, and examples of possible high risk indicators;
4. Create a standard format for compliance review schedules to be utilized by all ports for transmission to CBP-HQ;
5. Utilize and enhance its electronic port survey system to provide more detailed and timely information on the BWH and FTZ programs to enable meaningful analysis by HQ;



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6. Using the information received from the more detailed port survey system or through other means, prepare an analysis of common discrepancies identified in compliance reviews, risks presented by those discrepancies, and techniques for mitigating those risks;
7. Increase HQ and field office oversight to ensure that compliance reviews are being conducted properly and timely in accordance with the Compliance Review Handbooks; and
8. Continue to offer and enhance annual training to CBP BW/FTZ personnel to provide updates and changes to the program, and reinforce requirements over the program.

### F. Information Technology

#### Background:

Controls over information technology (IT) and related financial systems are essential elements of financial reporting integrity. Effective general controls in an IT and financial systems environment are typically defined in five key control areas: security management, access control, configuration management, segregation of duties and contingency planning. In addition to reliable controls, financial management system functionality is important to program monitoring, increasing accountability of financial and program managers, providing better information for decision-making, and increasing the efficiency and effectiveness of services provided by the Federal government.

#### Condition:

During FY 2009, CBP took corrective actions to address prior year IT control deficiencies. However, during FY 2009, we continued to find control deficiencies related to IT general and application controls. The key deficiency from a financial reporting perspective relates to information security. Collectively, the IT control deficiencies limit CBP's ability to ensure that critical financial and operational data is maintained in such a manner to ensure confidentiality, integrity, and availability. Because of the sensitive nature of the issues identified, we will issue a separate restricted distribution report that discusses the control deficiencies in more detail.

#### Criteria:

The *Federal Information Security Management Act* (FISMA), passed as part of the *E-Gov Act of 2002*, mandates that Federal entities maintain IT security programs in accordance with OMB and the U.S. Department of Commerce. OMB Circular No. A-130, *Management of Federal Information Resources*, and various National Institute of Standards and Technology (NIST) guidelines describe specific essential criteria for maintaining effective general IT controls. In addition, OMB Circular No. A-127, *Financial Management Systems*, prescribes policies and standards for executive departments and agencies to follow in developing, operating, evaluating, and reporting on financial management systems.

#### Recommendation:

We recommend that CBP improve the application and general controls over its financial systems to ensure adequate security and protection of the information systems.

#### CBP Response:

See management's response included in the attached letter.

## Status of Prior Year Material Weaknesses and Significant Deficiencies

Prior Year Condition	As Reported at September 30, 2008	Status as of September 30, 2009
<b>Financial Reporting – Property, Plant, and Equipment (PP&amp;E)</b>	<b>Significant deficiency:</b> Several weaknesses existed related to PP&E such as accounting for the Secure Border Initiative and the untimely transfer of construction in progress to fixed assets.	<b>Material Weakness:</b> Weaknesses continue to exist related to the Secure Border Initiative and untimely transfer of construction in progress to fixed assets. In conjunction with additional deficiencies in control findings A-B, financial reporting and PP&E are both identified as a material weakness in fiscal year 2009.
<b>Drawback of Duties, Taxes and Fees</b>	<b>Material weakness:</b> ACS lacked controls to detect and prevent excessive drawback claims and payments, requiring inefficient manual processes to compensate and the drawback review policies did not require drawback specialists to review all related drawback claims.	<b>Continue as a material weakness:</b> Weaknesses continue to exist related to the drawback process in fiscal year 2009. See control finding letter C.
<b>Financial Reporting – Inactive Obligations</b>	<b>Significant deficiency:</b> Weaknesses in CBP's policies and procedures related to the timely deobligation of inactive obligations.	<b>Continue as a significant deficiency:</b> Weaknesses continue to exist related to the timely deobligation of inactive obligations. See control finding letter D.
<b>Entry Process – In Bond</b>	<b>Significant deficiency:</b> Several weaknesses existed related to in-bond such as the lack of official guidance and training to address the monitoring of in-bond shipments at the port level, lack of CBP-HQ review of the in-bond program, and the overall inability to determine the effectiveness of the in-bond program for CBP in its entirety.	<b>Continue as a significant deficiency:</b> Although improvements were made, weaknesses still remain during fiscal year 2009. See control finding letter E, section 1.
<b>Entry Process – Entry Summary Compliance Measurement</b>	<b>Significant deficiency:</b> Several weaknesses existed related to Entry Summary Compliance Measurement, such as inconsistent procedures followed at the ports, lack of NTCB (formally NASD) port audits, and little review or analysis on the ESCM data to ensure that it was input correctly.	<b>Continue as a significant deficiency:</b> Although improvements were made, weaknesses still remain during fiscal year 2009. See control finding letter E, section 2.
<b>Entry Process – Bonded Warehouse and Foreign Trade Zones</b>	<b>Significant deficiency:</b> Several weaknesses existed related to BW/FTZ, such as the lack of official guidance and training to address the monitoring of BW/FTZ, and lack of management review	<b>Continue as a significant deficiency:</b> Weaknesses continue to exist related to the bonded warehouse and foreign trade zone process during fiscal year 2009.

Prior Year Condition	As Reported at September 30, 2008	Status as of September 30, 2009
	of the BW/FTZ surveys.	See control finding letter E, section 3.
<b>Information Technology</b>	<b>Significant deficiency:</b> Weaknesses were noted in entity-wide security, system access, segregation of duties, service continuity, and system software change management.	<b>Continue as a significant deficiency:</b> Weaknesses continue to exist related to IT general and application controls during fiscal year 2009. See control finding letter F.
<b>Non-compliance with the <i>Federal Information Security Management Act</i></b>	<b>Instance of non-compliance:</b> CBP was not in substantial compliance with FISMA. FISMA requires the head of each agency to be responsible for 1) providing information security protections commensurate with the risk and magnitude of the harm resulting from unauthorized access, use, disclosure, disruption, modification, or destruction of (i) information collected or maintained and (ii) information systems used or operated; 2) complying with the requirements of the Act and related policies, procedures, standards, and guidelines, including (i) information security standards under the United States Code, Title 40, Section 11331 and (ii) information security standards and guidelines for national security systems; and 3) ensuring that information security management processes are integrated with agency strategic and operational planning processes.	<b>Compliance is determined at the Department level.</b>
<b>Non-compliance with the <i>Federal Financial Management Improvement Act of 1996</i></b>	<b>Instance of non-compliance:</b> CBP was not in substantial compliance with FFMIA, which requires that an agency's financial management systems substantially comply with Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level. We noted instances of non-compliance with FFMIA in relation to Federal financial management systems requirements and the United States Government Standard General Ledger at the transaction level.	<b>Compliance is determined at the Department level.</b>



U.S. Customs and  
Border Protection

JAN 05 2009

MEMORANDUM FOR: Inspector General  
Department of Homeland Security

FROM: Eugene H. Schied  
Chief Financial Officer  
U.S. Customs and Border Protection

SUBJECT: Management Response to Independent Auditor's Report on U.S.  
Customs and Border Protection's Fiscal Year 2009 Financial  
Statements

On behalf of U.S. Customs and Border Protection (CBP), I am responding to the Independent Auditor's Report on CBP's Fiscal Year (FY) 2009 Financial Statements, which is included in our FY 2009 Performance and Accountability Report.

I accept the independent public accounting firm, KPMG LLP's, *unqualified* opinion on CBP's FY 2009 Financial Statements, which concluded that CBP's consolidated financial statements are fairly presented in all material respects in conformity with accounting principles.

CBP has reviewed and concur with the three material weaknesses as well as the three significant deficiencies. Mission Action Plans (MAPs) outlining CBP's strategy to correct these conditions will be prepared and provided to the DHS Office of Financial Management. CBP will continue to work to resolve all auditor identified weaknesses.

CBP appreciates the opportunity to review this year's audit report and looks forward to continuing our professional auditing relationship with your office. If you have any questions or would like additional information, please contact me at (202) 344-2300, or a member of your staff may contact Mari Boyd, Executive Director, Financial Operations at (202) 344-2364.

A handwritten signature in black ink, appearing to read "E. Schied", with a stylized flourish at the end.

Eugene H. Schied

Attachment

**Department of Homeland Security**

Secretary  
Deputy Secretary  
Chief of Staff for Operations  
Chief of Staff for Policy  
Deputy Chiefs of Staff  
General Counsel  
Executive Secretariat  
Director, GAO/OIG Liaison Office  
Assistant Secretary for Office of Policy  
Assistant Secretary for Office of Public Affairs  
Assistant Secretary for Office of Legislative Affairs  
Chief Financial Officer  
Chief Information Officer

**Customs and Border Protection**

Commissioner, Customs and Border Protection  
Chief Financial Officer  
Chief Information Officer

**Office of Management and Budget**

Chief, Homeland Security Branch  
DHS OIG Budget Examiner

**Congress**

Congressional Oversight and Appropriations Committees, as appropriate



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- Email us at [DHSOIGHOTLINE@dhs.gov](mailto:DHSOIGHOTLINE@dhs.gov); or
- Write to us at:  
DHS Office of Inspector General/MAIL STOP 2600,  
Attention: Office of Investigations - Hotline,  
245 Murray Drive, SW, Building 410,  
Washington, DC 20528.

The OIG seeks to protect the identity of each writer and caller.

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# Acronyms

ABTC	Agricultural/Biological Terrorism Countermeasures	BPETS	Border Patrol Enforcement Tracking System
ACE	Automated Commercial Environment	BSI	Border Security Initiative
ACS	Automated Commercial System	CAMITS	Customs Automated Maintenance Inventory System
ADPI	AZ Denial Prosecution Initiative	CAR	Checkpoint Activity Report
AEO	Authorized Economic Operator	CARMAC	Computerized Aircraft Reporting and Material Control System
AFB	Air Force Base	CBIG	Carribean Border Interagency Group
AgRA	Agricultural Resource Atlas	CBP	U.S. Customs and Border Protection
AIS	Automated Identification System	CDC	Center for Disease Control
AMOC	Air Marine Operations Center	CFO	Chief Financial Officer
AMOR	Air and Marine Operations Reporting System	CIA	Central Intelligence Agency
AOR	Area of Responsibility	CIS	Citizenship and Immigration Services
APATS	Air Program Administration Tracking System	CLP	Carrier Liaison Program
APIS	Advance Passenger Information System	COAC	Commercial Operations Advisory Committee
APTL	Agricultural Program Trade Liaisons	COBRA	Consolidated Omnibus Budget Reconciliation Act
ARO	Admissibility Review Office	COMPSTAT	Comparative Statistics
ARRA	American Recovery & Reinvestment Act of 2009	COP	Common Operating Picture
ATEP	Alien Transfer and Exit Program	COS	Chief of Staff
ATS	Automated Targeting System	CPSC	Consumer Product Safety Commission
AZ	Operation Arizona Denial	CSI	Container Security Initiative
BCC	Border Crossing Card	CSRS	Civil Service Retirement System
BICs	Border Intelligence Centers	CTB	Customs Tariff Bureau



# Acronyms

C-TPAT	Customs Trade Partnership Against Terrorism	FDA	Food & Drug Administration
CTTP	Consolidated Trusted Traveler Program	FDAU	Fraudulent Document Analysis Unit
DEA	Drug Enforcement Administration	FECA	Federal Employees' Compensation Act
DHS	Department of Homeland Security	FERS	Federal Employees' Retirement System
DIA	Defense Intelligence Agency	FFMIA	Federal Financial Management Improvement Act
DOC	Department of Commerce	FISMA	Federal Information Security Management Act of 2002
DOD	Department of Defense	FLETC	Federal Law Enforcement Training Center
DOE	Department of Energy	FMFIA	Federal Managers' Financial Integrity Act
DOJ	Department of Justice	FOB	Forwarding Operating Bases
DOS	Department of State	FPO	Fraud Prevention Officer
ECB	External Communication Branch	FPP	Fraud Prevention Program
EDL	Enhanced Driver Licenses	FY	Fiscal Year
EEO	Equal Employment Opportunity	FYHSP	Future Year Homeland Security Program
eGIS	Enterprise Geospatial Information Services	GAAP	Generally Accepted Accounting Principles
ENFORCE	Enforcement Case Tracking	GAO	Government Accountability Office
ER	Expedited Removal	GOM	Government of Mexico
ESTA	Electronic System for Travel Authorization	GPRA	Government Performance and Results Act
FAA	Federal Aviation Administration	GPS	Global Positioning System
FAST	Free and Secure Trade	GSA	General Service Administration
FBI	Federal Bureau of Investigation	HRM	Human Resources Management
FBWT	Fund Balance with Treasury	IA	Internal Affairs
FCB	Field Communication Branch		

# Acronyms

IAFIS	Integrated Automated Fingerprint Identification System	NCIC	National Crime Information Center
IAP	Immigration Advisory Program	NII	Non-Intrusive Inspection
IBET	Integrated Border Enforcement Teams	NLETS	National Law Enforcement Telecommunication System
ICAD	Intelligence Computer Assisted Detection	NPSAT	National Post Seizure Analysis Team
ICB	Information Coordination Branch	NTCC	National Targeting Center-Cargo
ICE	Immigration and Customs Enforcement	NTCP	National Targeting Center-Passenger
ICS	International Container Security	OASISS	Operation Against Smugglers Initiative on Safety and Security
IDENT	Automated Biometric Identification System	OAM	Office of Air and Marine
ILU	International Liaison Unit	OBP	Office of Border Patrol
INA	Immigration and Nationality Act	OBT	Outbound Policy and Programs
IT	Information Technology	OCA	Office of Congressional Affairs
IUF	Immigration User Fees	OCC	Office of Chief Counsel
IUFA	Immigration User Fees Account	OEO	Office of Equal Opportunity
LPOE	Land Ports of Entry	OF	Office of Finance
LPR	License Plate Reader	OFO	Office of Field Operations
MID	Management Inspection Division	OGA	Other Government Agencies
MLU	Mexican Liaison Units	OIG	Office of Inspector General
MOIR	Memoranda of Information Received	OIOC	Office of Intelligence Operation Coordination
MPC	Mobile Processing Center	OIT	Office of Information and Technology
MRA	Mutual Recognition Arrangement	OMB	Office of Management and Budget
MSS	Mobile Surveillance System	OMR	Operations Management Reports
NAS	National Airspace System	OPA	Office of Public Affairs

# Acronyms

OPM	Office of Personnel Management	SAP	Systems, Applications, and Products
OPP	Office of Policy and Planning	SAR	Search and Rescue
OPSG	Operation Stonegarden	SBI	Secure Border Initiative
ORBBP	Operational Requirements Based Budget Program	SENTRI	Secure Electronic Network for Traveler Rapid Inspection
OT	Office of International Trade	SFFAS	Statement of Federal Financial Accounting Standards
OTD	Office of Training and Development	SFI	Secure Freight Initiative
OTM	Other Than Mexican	SIP	Self-Inspection Program
OTR	Office of Trade Relations	SIRS	Self-Inspection Reporting System
PAP	Partnership Action Plan	SLT	State, Local, and Tribal
PAR	Performance and Accountability Report	SLTD	Stolen/Lost Travel Document
PART	Performance Assessment Rating Tool	SMF	Strategic Management Framework
PIERS	Port Import Export Reporting Service	SNMP	Simple Network Management Protocol
PMA	President's Management Agenda	SRT	Special Response Team
POE	Port of Entry	SSH	Sensitive Systems Handbook
PRD	Personal Radiation Detectors	TAS	Tax Administration Service
RCMP	Royal Canadian Mounted Police	TASPO	Targeting and Analysis Systems Program Office
RFID	Radio Frequency Identification	TDY	Temporary Duty
RIID	Radiation Isotope Identification Devices	TECS	The Enforcement Communication System
RIOS	Radio Interoperability System Monitor	TI	Tactical Infrastructure
RPM	Radiation Portal Monitor	TIDE	Terrorist Identifies Datamart Environment
SAFE	Safety and Accountability for Every Port Act legislation	TSA	Transportation Security Agency
SCSSs	Supply Chain Security Specialists		

# Acronyms

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UAS	Unmanned Aircraft System
USBP	United States Border Patrol
USCG	U.S. Coast Guard
USDA	U.S. Department of Agriculture
US PASS	U.S. Passenger Accelerated Service System
US-VISIT	U.S. Visitor and Immigrant Status Indicator Technology
VSC	Video Spectral Comparator
VWP	Visa Waiver Program
WADS	Work Accomplishment Data System
WASSPT	Wide Area Sensor Surveillance Planning Tool
WHTI	Western Hemisphere Travel Initiative
WMD/Es	Weapons of Mass Destruction/Effects
ZBF	Z-backscatter Fords







## U.S. Customs and Border Protection

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Please visit the U.S. Customs and Border Protection web site at  
[www.cbp.gov](http://www.cbp.gov)

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December 2009